VOL 12 No 6 JUNE 1982

SURVEY of Current Affairs

Government and Administration

By-elections and State of the Parties 175
Top Salaries 175
Northern Ireland Bill 176
Shorter Notes
New Law Reform Body 178; Security Procedures in the Public Service 178

External Affairs and Defence

The Falkland Islands 180
North Atlantic Treaty Organisation 189
European Community 192
Israeli Invasion of Lebanon 196
Visit of United States President 197
Commonwealth Development Corporation 198
The Crown Agents 199

Economic and Scientific Affairs

Versailles Economic Summit 201
Overseas Direct Investment 203
Privatisation 207
Enterprise Zones 210
Aid for Industrial Innovation 210
Shorter Notes
Small Firms Technical Enquiry Service 211; Offshore Oil and Gas Licensing 212; Kielder Water Resource Scheme 212; New 20 Pence Coin 212

Social and Cultural Affairs

Shorter Notes
Visit by the Pope 213; Capital Punishment 213; New Educational Qualification 213

Documentation 215

Prepared by Reference Services, Publications Division, Central Office of Information, London

Issued by **British Information Services**
An agency of the British Government
845 Third Avenue, New York, NY 10022

This material is prepared, edited, issued or circulated by British Information Services, 845 Third Avenue, New York, NY 10022, which is registered under the Foreign Agents Registration Act as an agency of the British Government. This material is filed with the Department of Justice where the required registration statement is available for public inspection. Registration does not indicate approval of the contents of this material by the United States Government.

Printed in England by trade union labor by Brown Knight & Truscott Ltd.

GOVERNMENT AND ADMINISTRATION

By-elections and State of the Parties

Details of the results of two recent by-elections and the present state of the parties in the House of Commons are given below.

The Conservative Party retained its seat at Beaconsfield and won the seat at Mitcham and Morden in parliamentary by-elections held respectively on 27 May and 3 June.

At Beaconsfield, where the by-election had been caused by the death in February of the Conservative MP, Sir Ronald Bell, QC, the Conservative candidate, Mr Timothy Smith, won by a majority of 13,053 votes. At Mitcham and Morden, the Conservative candidate, Mrs Angela Rumbold, won by a majority of 4,274 votes. The seat there became vacant following the resignation of the former Labour MP for the constituency, Mr Bruce Douglas-Mann, who had sat in the House of Commons since November 1981 as an Independent Social Democrat (see p 356, 1981). Mr Douglas-Mann, who contested the election as a candidate for the Social Democratic-Liberal Alliance, had resigned in order to seek re-election in his own constituency as a Social Democratic MP.

The detailed results were as follows:

Beaconsfield

T. Smith (Conservative)	23,049
P. Tyler (Liberal-Social Democratic Alliance)	9,996
A. C. L. Blair (Labour)	3,886

Three other candidates between them received 375 votes; they and the Labour candidate all lost their deposits. Some 54 per cent of the electorate voted.

Mitcham and Morden

A. Rumbold (Conservative)	13,306
B. Douglas-Mann (Social Democratic-Liberal Alliance)	9,032
D. Nicholas (Labour)	7,475

Six other candidates who between them received 860 votes all lost their deposits. Some 49 per cent of the electorate voted.

State of the Parties

Following the by-elections and the deaths in May of Mr James Dempsey, Labour MP for Coatbridge and Airdrie, and in June of Mr Ifor Davies, Labour MP for Gower, the state of the parties in the House of Commons is now as follows:

Conservative	334
Labour	237
Social Democratic	30[1]
Liberal	12
Scottish National	2
Plaid Cymru (Welsh Nationalist)	2
Official Unionist (Northern Ireland)	5
Democratic Unionist (Northern Ireland)	3
United Ulster (Northern Ireland)	1
Ulster Progressive Unionist (Northern Ireland)	1
Independent Socialist (Northern Ireland)	1
Anti-H-Block Proxy Prisoner (Northern Ireland)	1
Vacant	2
TOTAL	631

The four remaining seats are held by the Speaker of the House of Commons and his three deputies (the Chairman of Ways and Means and the first and second Deputy Chairmen of Ways and Means) who do not vote except in their official capacity in the event of a tie. The overall Government majority in the House of Commons is 39.

Top Salaries

The salaries of the judiciary have been increased by an average of 18·6 per cent and those of the higher Civil Service and senior officers of the armed forces by an average of 14·3 per cent. These increases were announced by the Prime Minister, Mrs Margaret Thatcher, in the House of Commons on 12 May. In addition, proposals to increase by 4 per cent the salaries and allowances of Members of Parliament, ministers and certain other office holders have been made.

Judicial, Civil Service and Armed Forces Salaries

In her statement on 12 May (*Hansard*, Vol 23, No 114, cols 257–62), the Prime Minister reminded

[1]The former Labour MP, Mr George Cunningham, who resigned from the Labour Party in November 1981 to sit in the House as an Independent Labour MP (see p 356, 1981), joined the Social Democratic Party in June.

the House of the Government's decision last year not to implement fully the recommendations of the Review Body on Top Salaries. (This had urged the Government to implement in full the increases recommended for 1980 – see pp 159–61, 1981.) The Review Body this year[1] had recommended increases in the pay of the higher Civil Service and senior officers of the armed forces averaging 13 per cent and for the judiciary 20 per cent above the levels recommended for April 1980, that is 19·4 and 24·3 per cent respectively on present salaries.

The Government agreed with the Review Body that substantial increases in the salaries of these groups were now justified since it was in the national interest to ensure an adequate supply of candidates of sufficient calibre for appointment to judicial office and to provide an adequate career structure and suitable differentials in the higher reaches of the Civil Service and the armed forces. However, while there were sound management reasons for bringing these salaries up to date quickly and for keeping them up to date in future, the immediate increases needed to achieve this were large. Accordingly the Government had decided that it had to ask these groups to accept some abatement in their salaries for this year. In doing so, however, it was particularly concerned with the need to provide adequate pay differentials between the lowest grades of the Civil Service and the armed forces covered by the report, and their colleagues immediately below them in their respective organisations. For the rest the Government had applied an abatement of about one-third of the proposed increase at the highest levels in each group and had settled intermediate salaries broadly in line with the pattern of differentials proposed in the Review Body's report.

The Government's decisions meant weighted average increases in the salaries of the higher Civil Service and senior officers of the armed forces of 8 per cent above the rates of salary recommended for 1 April 1980 and 14·3 per cent above the salaries currently in payment. The equivalent figures for the judiciary were 14·5 per cent and 18·6 per cent.

The new rates of salary, effective from 1 April 1982, are as follows:

	Previous salary £	*New salary from April 1982* £
a. Senior grades of the higher Civil Service		
Head of the Home Civil Service Permanent Secretary to the Treasury Secretary to the Cabinet	35,845	42,000
Permanent Secretary	33,170	37,750
Second Permanent Secretary	30,495	35,000
Deputy Secretary	26,215	30,250
Under-Secretary	21,935	25,000
b. Senior officers in the armed forces		
Admiral of the Fleet Field Marshal Marshal of the Royal Air Force	35,845	42,000
Admiral General Air Chief Marshal	33,170	37,750
Vice-Admiral Lieutenant General Air Marshal	26,215	30,250
Medical Rear Admiral Medical Major General Medical Air Vice-Marshal	23,005	25,000
Rear Admiral Major General Air Vice-Marshal	21,935	25,000
c. Higher judiciary		
Lord Chief Justice	44,500	52,500
Master of the Rolls Lord of Appeal Lord President of the Court of Session (Scotland)	41,000	48,250
Lord Chief Justice (Northern Ireland) President of the Family Division	39,000	47,000
Lord Justice of Appeal Lord Justice Clerk (Scotland) Lord Justice of Appeal (Northern Ireland) Vice-Chancellor	37,500	45,500

[1]*Review Body on Top Salaries. Report No 18. Fifth Report on Top Salaries.* Cmnd 8552. HMSO, £7·25. ISBN 0 10 185520 6.

Ministers' and MPs' Salaries and Allowances and Peers' Expenses

In a statement to the House of Commons on 12 May (*Hansard*, Vol 23, No 114, col 255), the Lord President of the Council, Mr John Biffen, reminded the House that the Top Salaries Review Body had not been asked to make recommendations in 1982 on the pay of MPs, and he said that the Government now proposed increases of 4 per cent in the pay and allowances of ministers and MPs, in line with the pay factor included in the Estimates. The Government also proposed to increase by 4 per cent expenses allowances for peers and secretarial allowances for ministers and other paid office holders in the House of Lords (see *Hansard* (*HL*), Vol 430, No 86, col 297).

Proposals on all these increases will be put before both Houses in due course.

Northern Ireland Bill

The Northern Ireland Bill, which would restore devolved government to the Province, has received its second reading in the House of Commons. The provisions of the Bill were outlined in the White Paper *Northern Ireland: A Framework for Devolution* (see pp 101-2).

The Bill received its second reading by 291 votes to 29; 20 Conservative Members, the 5 Official

Unionists, the 3 Democratic Unionists and the United Ulster (Northern Ireland) Member voted against. The Opposition abstained.

Secretary of State's Speech

Introducing the second reading of the Northern Ireland Bill on 10 May (*Hansard*, Vol 23, No 112, cols 469-554) the Secretary of State for Northern Ireland, Mr James Prior, said that a policy of continuing direct rule did not offer a long-term answer to the problems of Northern Ireland. There was a choice either of moving towards total integration within the United Kingdom or of seeking a gradual devolution of power, which was the course the Government favoured. Mr Prior said that in his view integration was unacceptable since none of the parties wanted it. Integration, with the exercise of power through a local government structure, would be bitterly opposed and would deny the minority any proper opportunity of expressing its aspirations or assuming its share of responsibility. An acceptable solution would have to take into account the manner in which different parts of the community identified with different policies and aspirations.

Answering the charge of the Bill's opponents that devolution would do nothing to defeat terrorism or revive the economy of the Province, Mr Prior said that the setting up of an Assembly would not achieve either objective immediately. But the Assembly was a necessary preliminary to political stability, and this stability would have a beneficial effect on the economy by improving the conditions for investment and employment. Similarly, the willingness of all parts of the community to associate with the institutions of law and order would, in time, strengthen active and positive resistance to terrorism.

The Secretary of State said that the Bill's provisions reflected a radically new approach to the devolution of legislative and executive powers, but sought to achieve its objectives so far as possible by using the existing constitutional framework. There was therefore considerable continuity in the proposals. First and most important, Northern Ireland's position as a constituent part of the United Kingdom would remain unchanged. There would be no change in that status without the consent of a majority of the people of the Province voting in a border poll. Secondly, extensive provision would remain for the prevention of religious and political discrimination in Northern Ireland. In the Government's view human rights were well-protected. Thirdly, the powers available for devolution would be those already defined in the Northern Ireland Constitution Act 1973. 'Excepted' matters, relating to the Crown, foreign affairs and defence, would remain the permanent responsibility of Parliament. 'Reserved' matters, concerned mainly with law and order, would remain initially with Parliament, but could be transferred to local control once a durable system of government had been established. Responsibility for all other matters, classified as 'transferred', could pass in part or in whole to the devolved administration.

Mr Prior went on to summarise the new elements in the devolution proposals. The Bill laid responsibility for making proposals for a devolved administration squarely on the Assembly itself. The aim of this proposal was to give the people of Northern Ireland, through their elected representatives, the fullest opportunity to reach agreed arrangements for an acceptable form of government. There was therefore no requirement for the administration to be composed in a particular way, and the arrangements would be settled by the Assembly.

There was provision for the devolution of power either by a complete return of all the available responsibilities at one time, or by devolving them in more than one stage. This left the greatest possible scope for local initiative. There were many issues, particularly in the economic sphere, on which representatives of the Northern Ireland parties already made common cause, and this could lead to agreement on a scheme for partial devolution.

The Assembly would have vital scrutinising and monitoring functions pending devolution. As a result it would provide something which had been lacking under direct rule: 'a local forum in which the views of the elected representatives can be expressed, formulated and presented to the Government and Parliament'.

Mr Prior emphasised that the reason why the Bill did not deal with Ulster's relations with the Republic of Ireland was that no further legislation was required. There was statutory provision in the Northern Ireland Constitution Act 1973 enabling a Northern Ireland administration to reach bilateral agreements with the Government of the Republic on those matters for which it had responsibility.

Mr Prior then discussed the two alternative tests laid out in the Bill for the submission of devolution proposals to the United Kingdom Parliament. The conditions of the first were that if 70 per cent of the Assembly's members agreed on a set of proposals, then these would automatically be presented to Parliament by the Secretary of State. The Government would have to give a clear view on whether these proposals were acceptable to both sides of the community in Northern Ireland. This was the essential criterion that the proposals had to meet. The alternative was that if a simple majority of the Assembly, but not 70 per cent, could agree on a set of proposals, then these would be presented to Parliament if the Secretary of State was satisfied that they enjoyed cross-community support.

In reply to a question, Mr Prior said that if, once power had been devolved, the Assembly exercised its power in a way which the House of Commons considered unfair to a section of the community in Northern Ireland, the Government would be able to take the power back.

Concluding his speech, the Secretary of State said that the Government recognised how difficult it would be to achieve a lasting improvement in the situation in Northern Ireland. Much depended on the willingness of the various factions to make accommodations with each other, and this was why the steps taken by the Bill were so modest. It was said that there was no support for the Bill in Ulster but the Government believed there was

a real desire among the people there for a break in the deadlock.

Opposition View

The Opposition spokesman on Northern Ireland, Mr Don Concannon, said that his party found the Government's analysis of the problems of Northern Ireland broadly acceptable, and supported its recognition of the 'two identities'. However, the Opposition had concluded that the Bill did not cater properly for the political realities of Northern Ireland, and he intended to focus on those parts of the Bill which in its opinion failed to fulfil the Government's criterion of cross-community acceptability. He did not agree that the Presiding Officer of the Assembly should be elected by the Assembly, but considered that the Secretary of State should have the power to make this appointment. This would help to ensure that a person acceptable to both sides of the community would hold this important position. Discussing the clause of the Bill which gave to the Assembly responsibility for deciding how executive functions should be discharged after devolution, he said that the Opposition would have laid down much tighter criteria for the inclusion of the minority at every level of executive power.

Turning to the proposed tests for the submission of devolution proposals to Parliament, Mr Concannon suggested that the first test should be discarded. He doubted whether a 70 per cent majority in the Assembly for any devolution proposals would ensure that they had a demonstrable measure of support. Unless the majority was 80 per cent or more it would be worthless. The Opposition's view was that it was unnecessary to set any figure, and that any devolution proposals which had a majority in the Assembly should be submitted to the Secretary of State. It would then be for him alone to decide whether they had the necessary measure of cross-community support.

Mr Concannon referred to the lack of any reference to the Irish dimension in the Bill. The Opposition would like to see provision for the establishment of a committee of the Assembly to deal solely with matters of common interest with the Irish Republic.

Shorter Notes

NEW LAW REFORM BODY

The establishment of a permanent committee to be known as the Supreme Court Procedure Committee, to speed up reform in the field of civil procedure, was announced in May by the Lord Chief Justice. This follows the suggestion by the Royal Commission on Legal Services in 1979 that an expert body be appointed to review all civil procedures, to satisfy the public desire for a reduction in the time and cost of legal proceedings (see p 309, 1979). The committee's terms of reference are as follows:

> 'To initiate, or consider and make recommendations upon suggestions for, changes in practice and procedure, which appear to be desirable in the interests of the more rapid disposal of business or the saving of costs and which are considered to be matters of urgency, which should not await the more general review of procedure recommended by the Royal Commission on Legal Services'.

The committee has been set up with the approval of the Lord Chancellor by the Lord Chief Justice and the other heads of Divisions of the High Court in conjunction with the Presidents of the Senate and of the Law Society (the governing bodies for barristers and solicitors respectively). Its chairman is to be Lord Justice Kerr, a Lord Justice of Appeal, who was formerly Chairman of the Law Commission. It will promote and co-ordinate the work of three specialist sub-committees, representing the Chancery, Queen's Bench and Family Divisions of the High Court, which will scrutinise proposals for reforms recommended to the main committee.

Source: House of Lords press notice, May 1982.

SECURITY PROCEDURES IN THE PUBLIC SERVICE

The Prime Minister has issued a statement on the findings of a recent review by the Security Commission of security procedures and practices in the public service.[1] The review, which in the interests of security has not been published, is generally reassuring, and the Government agrees with the three main themes of the Commission's analysis: that the present system of security procedures is well conceived and operates effectively; that, while the threat from Soviet bloc intelligence remains undiminished, Britain's democratic institutions are now also under challenge from a range of new subversive groups, whose readiness to inflict deliberate harm on the country is also considerable; and that the growth in the use of electronic devices for processing and storing highly classified information presents a new and continuing challenge to those responsible for its protection.

Among the detailed recommendations of the Commission are that:

1 A thorough review of the system for classifying information should be made.

2 The system for investigating the reliability of those expected to have access to highly classified information – known as positive vetting – should be reviewed by Home Civil Service departments with a view to reducing the number of posts requiring positive vetting clearance. In the Home Civil Service male homosexuality should no longer necessarily be held as an absolute bar to positive

[1] *Statement on the Recommendations of the Security Commission.* Cmnd 8540. HMSO, £1·90. ISBN 0 10 185400 5. The Commission consists of a panel of seven members, from whom three, including the chairman, are normally selected on each occasion when the Commission is invited to investigate a particular aspect of personnel security.

vetting clearance, but should be dealt with on a case-to-case basis. However, this recommendation does not apply to the Diplomatic Service where the bar should remain since its members are liable to be posted to a number of foreign states where homosexual relationships between consenting adults are offences against the criminal law.

3 A senior committee should be set up to evaluate security risks involved in the growing use of computers and other electronic equipment for storing classified information.

The Government accepts the substance of these recommendations and they are being, or will be, implemented.

EXTERNAL AFFAIRS AND DEFENCE

The Falkland Islands

On 15 June Argentine forces on the Falkland Islands surrendered after British forces had taken control of East Falkland and cut off the Falklands capital, Stanley. The British landing on East Falkland had taken place on 21 May following the rejection by Argentina of British proposals for an interim settlement of the conflict. On 4 June Britain vetoed a draft United Nations Security Council resolution calling for a ceasefire because this was not 'linked inseparably' to an immediate and total Argentine withdrawal.

After giving details of the surrender to the House of Commons on 15 June (*Hansard*, Vol 25, No 132, cols 729-41), the Prime Minister, Mrs Margaret Thatcher, said that the Government was seeking confirmation from Argentina that it, like Britain, considered all hostilities in the South Atlantic to be at an end. The Governor, Mr Rex Hunt, would be returning to the Islands as soon as possible to resume his civil responsibilities; military matters would be the responsibility of the military commander, Major-General Jeremy Moore. Britain intended to uphold its commitment to the security of the Islands, if necessary alone, but did not exclude the possibility of associating other countries with this. Referring to the Islands' long-term future, Mrs Thatcher said that the Islanders had to be consulted so that the best possible arrangements could be made for them. She recognised that there would need to be friendly relations with other countries in the region.

Details of Britain's proposals for an interim settlement of the conflict, which were advanced during negotiations conducted under the auspices of the United Nations Secretary-General, Mr Perez de Cuellar, were given in a document[1] issued by the British Government on 20 May and discussed by the Prime Minister, Mrs Margaret Thatcher, in a debate in the House of Commons on the same day.

NEGOTIATIONS FOR AN INTERIM SETTLEMENT

At the same time as it had built up military pressure on Argentina, the Government explains in the document, Britain had 'dedicated her maximum diplomatic efforts to the search for a negotiated solution'. The ideas of the United States Secretary of State, Mr Alexander Haig, for an interim settlement (see pp 153-4) were discussed repeatedly with both parties and Britain had expressed willingness to consider his final proposals despite the fact that they had presented 'certain real difficulties'. Argentina, however, had rejected them. The next stage of negotiations had been based upon proposals originally advanced by President Belaúnde Terry of Peru and later modified in consultations with Mr Haig; although Britain had been prepared to accept the final version of these proposals for an interim agreement, Argentina had refused to do so (see pp 154-5).

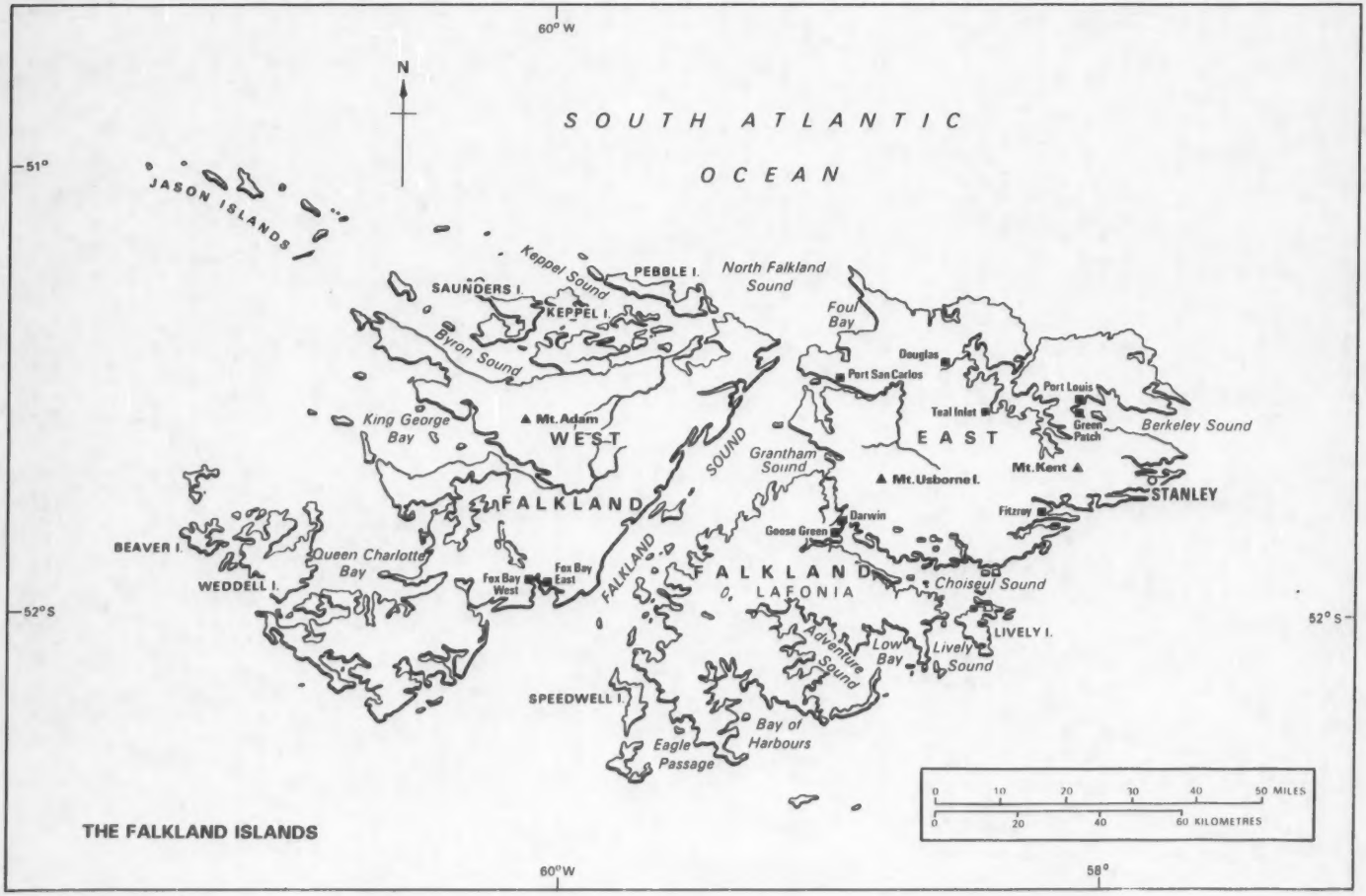
Negotiations then took place between Mr Perez de Cuellar and the British Permanent Representative, Sir Anthony Parsons, and the Argentine Deputy Foreign Minister, Señor Enrique Ros. In these, as in previous discussions, Britain made repeated efforts to establish whether Argentina was willing to be sufficiently flexible to make a reasonable interim agreement possible. 'But it became increasingly clear that Argentina was not seeking an agreement but was playing for time in the negotiations in the hope of holding on to the fruits of aggression, with all that this would imply for the international rule of law'.

After consultations with government ministers during a visit to London on 16 May Sir Anthony Parsons presented proposals to the Secretary-General on 17 May in the form of a draft interim agreement between Britain and Argentina and pointed out that this represented the furthest that the British Government could go in the negotiations. Following a request from Sir Anthony, Mr Perez de Cuellar gave the draft to the Argentine Deputy Foreign Minister and asked for a response within two days. Received by Britain on 19 May, Argentina's reply represented a hardening of the Argentine position and amounted to a rejection of the British proposals.

Fundamental Principles

Britain's approach in all negotiations, the Government emphasises, had been based on important principles repeatedly set out in Parliament. The first was the need to uphold international law through the ending of Argentina's unlawful aggression and the implementation of Security Council resolution 502 calling for the withdrawal of Argentine forces. Aggression could not be

[1] *The Falkland Islands: Negotiations for a Peaceful Settlement.*



THE FALKLAND ISLANDS

rewarded, or small countries across the world would feel threatened by neighbours with territorial claims. The second concerned the freedom of the Falkland Islanders to participate, through the involvement of their elected representatives in the interim administration, in the running of their affairs and to freely express their wishes about the Islands' future, in accordance with the principle of self-determination. Finally, while Britain had no doubt about its sovereignty over the Islands, having administered them peacefully since 1833, it had been willing that an interim agreement should provide for new negotiations under which sovereignty could be discussed so long as there was no prejudgment as to their outcome. These principles were upheld in the draft agreement presented to Argentina, as was Britain's insistence that the agreement should not apply to the Falkland Islands Dependencies. Britain's title to these did not derive from the Falkland Islands to which they had been linked only for reasons of administrative convenience (see footnote, p 155).

Draft Interim Agreement

The British draft agreement, the Government explains, provided for complete Argentine withdrawal from the Islands within 14 days, a withdrawal of all British and Argentine armed forces from a zone of 150 nautical miles radius around the Islands (also within 14 days), international verification of these withdrawals by a United Nations Administrator, the lifting by both sides of exclusion zones, and the lifting of economic sanctions against Argentina. The United Nations Administrator was to administer the government of the Islands in conformity with traditional laws and practices and in consultation with the Legislative and Executive Councils, the Islanders' representative institutions developed in accordance with the terms of Article 73 of the United Nations Charter.[1] At the same time there was provision for the addition to each Council of one representative from the normal Argentine population of the Islands (30 out of 1,800) and for up to three Argentine and three British observers on the Islands during the interim period. Communications, travel, transport and postage between the Islands and the Argentine mainland were to be re-established on the same basis as that existing before the invasion. Finally Britain expressed its readiness to enter into negotiations under the auspices of the United Nations Secretary-General for a peaceful settlement of the dispute and to seek completion of the negotiations by 31 December 1982 provided that no outcome should be either excluded or pre-determined.

[1]Under Article 73 member states administering territories whose peoples have not attained full self-government have an obligation to develop self-government and to assist in the development of free political institutions. The Legislative and Executive Councils were first formed in the nineteenth century and in 1949 and 1977 the Constitution was revised to increase the number of elected councillors. The Islands are administered by a Governor advised by an Executive Council consisting of two elected members of the Legislative Council nominated by that Council, two *ex officio* members and two members appointed by the Governor. The Legislative Council, composed of six elected and two *ex officio* members, has the power to make laws 'for the peace, order and good government' of the territory.

Argentine Response

In its final position, the British Government states, Argentina wanted the Falkland Islands Dependencies to be included in the agreement. It also wanted the withdrawal of forces to be completed in 30 days and for these to return to their normal bases and areas of operation, which would have required British forces to be enormously further away than Argentina's. The administration of the Islands was to be the exclusive responsibility of the United Nations (though with Argentine and British observers present) which would have been free to appoint advisers in equal numbers from the small Argentine population and the much larger population of British origin. Argentina also wanted free access for its nationals to the Islands with respect to residence, work and property, and opposed the British view that the United Nations Administrator should exercise his powers in conformity with the laws and practices traditionally observed in the Islands. 'It was evident', the Government comments, 'that Argentina hoped to change the nature of Falklands society and its demographic make-up in the interim period, and thus prejudge the future.'

On negotiations concerning the future of the Islands, Argentina stated that they should be 'initiated' without prejudice to the rights, claims and positions of the two parties, but would not accept an additional phrase stating that the outcome should not be prejudged. Moreover Argentine leaders continued in public to insist on having sovereignty. Argentina also resisted a provision in the British draft which would have ensured that the interim arrangements should remain in place until a definitive agreement about the future of the Islands could be implemented. 'Argentina's evident aim in resisting this', the British Government states, 'was that, if no definitive agreement had been reached by the target date of 31 December 1982, the interim administration would cease to exist and a vacuum be created which Argentina could hope to fill.'

PARLIAMENTARY DEBATE

Prime Minister's Speech

Opening a debate in the House of Commons on 20 May (*Hansard*, Vol 24, No 120, cols 477-559), the Prime Minister said that the Argentine response to Britain's proposals for an interim settlement was in effect a total rejection and had 'retracted virtually all the movement that [its] representative had shown during the Secretary-General's efforts to find a negotiated settlement'. The British proposals 'represented a truly responsible effort to find a peaceful solution which both preserved the fundamental principles of our position and offered the opportunity to stop further loss of life in the South Atlantic'. To achieve this, Britain had been prepared to make practical changes that were reasonable. But it had not been prepared to compromise on principle.

Turning to Argentina's response, Mrs Thatcher said that its demand that all forces should be withdrawn from the Islands, South Georgia and the South Sandwich Islands and returned to their

normal bases and areas of operation was calculated to put Britain at an enormous disadvantage. The Argentine requirement that the interim administration should be the exclusive responsibility of the United Nations 'rejected any role for the Islands' democratic institutions'; while the demand for freedom of movement and equality of access with regard to residence, work and property for Argentine nationals on an equal basis with the Falkland Islanders reflected the junta's clear aim 'to flood the Islands with its own nationals during the interim period, and thereby change the nature of Falklands society and so prejudge the future of the Islands'.

With regard to negotiations for a long-term settlement, the junta, while pretending not to prejudice the outcome, had 'stipulated that the object was to comply not only with the Charter of the United Nations but with various resolutions of the General Assembly, from some of which [Britain] dissented on the grounds that they favoured Argentine sovereignty'. In addition the junta had demanded that, if the period provided for the completion of the negotiation expired, the General Assembly should determine the lines to which final agreement should conform. It was, said the Prime Minister, 'manifestly impossible for Britain to accept such demands'.

Mrs Thatcher pointed out that Argentina had begun the crisis and had rejected proposal after proposal. She continued: 'One is bound to ask whether the junta has ever intended to seek a peaceful settlement or whether it has sought merely to confuse and prolong the negotiations while remaining in illegal possession of the Islands .... From the course of these negotiations and Argentina's persistent refusal to accept resolution 502 we are bound to conclude that its objective is procrastination and continuing occupation, leading eventually to sovereignty.' Since the British proposals had been rejected, the Prime Minister said they were no longer on the table and it was reasonable to withdraw them.

That morning, Mrs Thatcher continued, the United Nations Secretary-General had put to Britain and Argentina an *aide-mémoire* describing those issues where, in his opinion, agreement seemed to exist and those on which differences remained. The first group of issues needed further clarification since on some points Britain's interpretation was different. The *aide-mémoire* stated, for example, that Argentina was prepared to accept long-term negotiations without prejudging the outcome, but this had been omitted from the Argentine response to Britain's proposals and was 'belied by a succession of statements from Buenos Aires'. In the Secretary-General's judgment, differences remained concerning aspects of the interim administration, the timetable for completion of negotiations and the related duration of the interim administration, aspects of the mutual withdrawal of forces, and the geographic area to be covered. Mrs Thatcher paid tribute to the efforts of the Secretary-General and said that he had a duty to continue to seek agreement. Nevertheless his paper differed in certain important respects from the British position as presented on 17 May, and fundamentally from that of Argentina. Some of his suggestions were the very ones already rejected in Argentina's response to Britain's proposals. Mrs Thatcher continued: 'Even if they were acceptable to both parties as a basis for negotiation, that negotiation would take many days, if not weeks, to reach either success or failure. We have been through this often before and each time we have been met with Argentine obduracy and procrastination. Argentina rejected our proposals. It is inconceivable that it would now genuinely accept those of the Secretary-General's ideas which closely resemble our own.'

For the Government to negotiate on the basis of the *aide-mémoire* it needed to see substantive Argentine comments on it going beyond mere acceptance of it as a basis for negotiation. This point was being made to the Secretary-General in the British reply which was also reminding him that negotiations did not close any military options.

In conclusion Mrs Thatcher said: 'The principles that we are defending are fundamental to everything that this Parliament and this country stand for. They are the principles of democracy and the rule of law. Argentina invaded the Falkland Islands in violation of the rights of peoples to determine by whom and in what way they are governed. Its aggression was committed against a people who are used to enjoying full human rights and freedom. It was executed by a Government with a notorious record in suspending and violating those same rights. Britain has a responsibility towards the Islanders to restore their democratic way of life. [It] has a duty to the whole world to show that aggression will not succeed and to uphold the cause of freedom.'

Opposition Views

Emphasising the importance of upholding the United Nations Charter, the Leader of the Opposition, Mr Michael Foot, said that resolution 502 had been 'the sheet anchor of the British case throughout the world' and that it was primarily on the basis of that resolution that support for Britain had been obtained. He supported the action taken by the Government under the resolution, stating that the task force had had to be sent and pointing out that the Government had had the fullest support from the Opposition in sustaining Britain's rights. The Opposition had also stressed the need for the dispute to be settled, if possible, by peaceful means because of the danger of the loss of British, Argentine and Falkland Islander lives.

Mr Foot said that Britain's proposals for an interim settlement had presented a formidable case and had stated clearly the principles of democracy and self-determination on which it had acted. He continued: 'In my view, they are fair proposals, and it is right that they should have been presented in those terms.' On the Argentine proposals, Mr Foot said that they contained many defects but that they did not amount to a total rejection of the British ones. He thought it a mistake for the British proposals to be withdrawn and emphasised the need for the Government to make a much bigger response to the United Nations Secretary-General. Britain had to com-

mand support through the United Nations and Mr Foot urged the Prime Minister or the Foreign and Commonwealth Secretary to go to New York to discuss the matter.

Speaking for the Social Democratic Party, Dr David Owen said that the Government had made a serious attempt to seek a negotiated settlement and that its negotiating position had been fair and reasonable. On military moves, he said that if the Chiefs of Staff advised further measures to protect the task force or to tighten the military pressure around the invaders on the Islands, it would be reasonable for the Government to authorise them. He hoped that it would be possible to repossess parts of the Islands in order to obtain a land base for British aircraft. None of this, however, reduced the Government's responsibility to continue negotiating or to respond to any reasonable request from the Secretary-General if he were ready to pursue his *aide-mémoire* and try to seek a negotiated settlement. Referring to the economic sanctions directed against Argentina by Britain's friends (see pp 109-10), Dr Owen hoped that these would remain, but pointed out that these countries believed that Britain should continue to negotiate. Unconditional surrender was rarely the right position for a strong democratic country to adopt, and the Government should keep its propositions on the table.

Speaking for the Liberal Party, Mr Russell Johnston said that the Government had 'unquestionably been prepared to make considerable concessions to achieve a peaceful settlement'. All parties in the House had supported the sending of the task force as necessary backing without which, given the nature of the Argentine Government, it was unlikely that a peaceful solution would have been achieved; and all had recognised that a military solution was one of last resort. If the Islands were recaptured by force Britain would be committed to defending them for many years and it had to face up to this. If there were a chance of peace it had to be taken without hesitation and Britain had nothing to lose by keeping its proposals on the table.

The Opposition spokesman on foreign affairs, Mr Denis Healey, said that the Government had shown beyond reasonable doubt that it had been prepared to make many concessions for the sake of a negotiated settlement, and it had been right to do so. Argentina's concessions, however, had been 'nothing like sufficient to guarantee that negotiations on a long-term settlement [would] not be prejudiced in advance'. Mr Healey said that the Government was right to increase the military pressure but warned that a purely military settlement could not endure. There had to be a negotiated settlement and future negotiations were bound in some way to build on the Government's proposals. The Opposition firmly endorsed the Government's two fundamental conditions – namely the withdrawal of Argentine forces and negotiations for a long-term solution without prejudice to their outcome. It also strongly supported the Government's refusal to accept the Argentine demand for unrestricted access to the Islands by Argentine citizens and its determination not to include the Falkland Islands Dependencies in an agreement, and thought it would be wrong for the Argentines to withdraw only 200 or 300 miles and for Britain to send its forces back 8,000 miles.

Mr Healey observed that negotiations and military operations were not alternatives but indissolubly linked with one another, and both had to be pursued at the same time. The Opposition supported some increase in the military pressure on Argentina, but this had to be designed to create the possibility of more fruitful negotiations than had been seen so far. In addition the force used had to be seen by Britain's friends as proportionate to the issue at stake and used in a way which would not jeopardise the possibility of negotiation. Britain would keep their support so long as the Government preserved a proper balance between negotiations and military action. The Government's military and diplomatic behaviour, with one or two minor exceptions, had deserved the full support of both sides of the House, but it had to see negotiation as the final objective of its diplomatic and military actions.

Government Reply

In his closing speech for the Government the Foreign and Commonwealth Secretary, Mr Francis Pym, said that the Argentine reply to Britain's proposals showed that 'Argentina [was] simply not interested in the peaceful and honourable solution which could have been available and which was, indeed, explicitly offered'. The Argentine Government was interested only in delay in order to consolidate what it had seized by force and 'to scour the world in search of new weapons'.

Mr Pym reminded the House of Britain's basic requirements – namely, the withdrawal of Argentine forces as demanded by Security Council resolution 502, the establishment of a ceasefire as soon as withdrawal could be agreed, and satisfactory provision for the democratic administration of the Islands in any interim arrangements. In addition Britain wanted to ensure that negotiations with Argentina over the future of the Islands conformed with the principles so strongly supported by the House. The Foreign Secretary continued: 'We have made it clear in this connection that we remain prepared to negotiate with Argentina about the long-term future of the Islands, as we and previous Governments were so prepared before the invasion, that we shall be ready to discuss anything which either side might wish to put forward, and that we insist only that the terms of reference of these negotiations should not be such as to predetermine or prejudge the outcome, whether on sovereignty or on other matters.' Although there had been some movement by Argentina towards the position of non-prejudgment, it was not convincing and the Argentine reply had omitted reference to it.

Referring to Britain's proposals, Mr Pym said that the Government had stood firm on its basic requirements, but a degree of flexibility had been unavoidable in order to achieve the basic objective of a peaceful Argentine withdrawal. It had quickly become clear that 'as a practical matter some interim arrangements would have to be made to

supervise the [Argentine] withdrawal, to ensure that Argentine forces would not be re-introduced and to provide a degree of international involvement in the administration of the Islands until a longer-term solution was achieved'. Britain had shown flexibility both in agreeing to the need for such arrangements and in the discussion of the precise details, while insisting that 'the details should not be such as to predetermine or prejudge the longer-term settlement'. The Government had also stressed that 'there could be no question of ignoring the democratic institutions which had been established by the Islanders as the channel for the exercise of their democratic rights'. Argentina's proposed terms, however, would have included entirely unbalanced provisions for withdrawal, destruction of the previous democratic structures and arrangements on the Islands, the chance to change the character of the Islands in its favour, terms of reference for long-term negotiations which led in only one direction, and the need for British withdrawal from South Georgia. If these terms had been accepted the Argentine armed forces would have been 400 miles away from the Islands and the British 8,000 miles away with nothing to prevent the Argentine troops from returning. The negotiations, which would have included South Georgia, would have been conducted against a deadline to be succeeded next year by a vacuum. Mr Pym added: 'One can well imagine what would be the nature of that vacuum, what the Argentines had in mind for dealing with the vacuum, and who, in their estimation, would be in a position to fill it.' The Argentine response was an uncompromising rejection of Britain's proposals, Argentina's whole object being to achieve through negotiations what it had tried to achieve by aggression – namely the imposition of irreversible transfer of sovereignty.

Mr Pym said that Britain had made it clear to the Secretary-General that it could not allow the negotiations held under his auspices to be spun out indefinitely. Since Britain's final position had been rejected, the Secretary-General's overnight suggestions could not be allowed – any more than at any other stage in all the negotiations – to affect the military options at its disposal. The Government awaited the Argentine response to the Secretary-General's ideas but was far from hopeful that the reply would 'be such as to enable an immediate ceasefire to be achieved, followed by the immediate withdrawal of Argentine forces from the Islands'. The Government had not turned its back on the idea of a negotiated settlement but, although diplomatic efforts continued as vigorously as before, 'a carefully balanced offer made at a particular stage in complex negotiations [could not] just be left on the table'. The Argentines, having rejected Britain's offer, could not continue their unlawful occupation of the Falkland Islands, their attacks on the task force, and their diplomatic prevarication and misrepresentation of the British position and then hope to come back a few days or weeks later and take up a position which had been put to them previously.

In conclusion Mr Pym said that Britain would remain in contact with the Secretary-General who was doing all he could to achieve implementation of resolution 502 and deserved the constructive support of all member states. He continued: 'We remain ready to negotiate, but we shall not do anything to give credit to the cynical Argentine pretence that they are negotiating in good faith when they are not.'

UNITED NATIONS ACTION

Following a request from Panama and the Irish Republic, the Security Council met on 21 May to consider the situation in the Falkland Islands and to hear a report from the Secretary-General on action taken in pursuit of Security Council resolution 502.

Secretary-General's Report

The Secretary-General said that he had repeatedly urged the implementation of the resolution, had hoped that the efforts of the United States Government to facilitate a peaceful solution would succeed, and had expressed the view that nothing should have been done to interfere with that process. Following the breakdown of the United States effort, Mr Perez de Cuellar said that in separate meetings with the permanent representatives of Britain, Argentina and the United States on 19 April, he had outlined the assistance that the United Nations could render in support of an agreement consistent with resolution 502, including a small presence of civilian and military observers to supervise any agreed withdrawal as well as an interim administration, and the possibility of a temporary UN administration. The Secretary-General said that, as part of his contingency planning, detailed plans were developed to be made available to the parties at the appropriate time.

In an *aide-mémoire* given separately to both parties on 2 May, Mr Perez de Cuellar said that he had expressed deep concern over the grave situation and emphasised that the United Nations had a responsibility under the Charter urgently to restore peace and to promote a just and lasting settlement. The *aide-mémoire* contained the following proposals which, the Secretary-General explained, were conceived as provisional measures without prejudice to the rights, claims or positions of either party:

1 Withdrawal of Argentine troops from the Islands, and a withdrawal of British forces from the area of the Falkland Islands, both Governments completing their withdrawals by an agreed date.

2 Negotiations by both Governments to seek a diplomatic solution to their differences by an agreed target date.

3 The rescinding by both Governments of blockades and exclusion zones, and the ending of all hostile acts against each other.

4 The termination of all economic sanctions.

5 Transitional arrangements under which the above steps would be supervised and interim administrative requirements met.

In their responses, received on 5 and 6 May respectively, both Argentina and Britain had

accepted this approach as providing a basis for a framework for an agreement. At the same time the responses 'raised a number of points on which agreement was needed'.

Since 7 May, Mr Perez de Cuellar continued, he had had some 30 separate meetings with the two sides and by mid-May, in his judgment, essential agreement had been obtained on the following points:

1 The agreement would be interim in nature 'without prejudice to the rights, claims, or position of the parties concerned'.

2 The agreement would cover a ceasefire, mutual withdrawal of forces, termination of exclusion zones and of economic measures, interim administration of the Islands, and negotiations on a peaceful settlement of the dispute.

3 Simultaneous initiation of the various parts of the agreement.

4 A phased withdrawal of forces under the supervision of United Nations observers.

5 The interim administration would be under the authority of the United Nations whose flag would be flown. Argentina and Britain would establish small liaison offices on which their respective flags could be flown.

6 The parties would enter into negotiations in good faith under the auspices of the United Nations for the peaceful settlement of their dispute and would seek their completion by 31 December 1982. These would be initiated without prejudice to the rights, claims or position of the parties and without prejudgment of the outcome.

Mr Perez de Cuellar explained that crucial differences remained on certain aspects of the interim administration, provisions for the extension of the time to be allowed for completion of negotiations and the related duration of the interim administration, certain aspects of mutual withdrawal of forces, and the geographic area to be covered by the terms of the interim agreement.

Referring to the British and Argentine draft proposals for an interim agreement (see above), the Secretary-General said that 'it was apparent that they did not reflect the progress which had, in my view, been achieved in the previous exchanges and that the differences on the four points remained'. On 19 May he had presented a further *aide-mémoire* to the two sides listing the areas where he felt that agreement had been reached and those which remained unresolved, and including suggestions and formulations concerning the unresolved issues. This had also expressed his opinion that the extent of agreement was such that if it were incorporated in an interim agreement, the requirements of resolution 502 would have been met.

In conclusion the Secretary-General said that by 21 May 'the necessary accommodations had not been made'.

British Statement

Speaking in the Security Council on 21 May, the British Permanent Representative, Sir Anthony Parsons, said that in practice Argentina had rejected the Security Council resolution calling for withdrawal of its forces by reinforcing them and imposing 'military government in the Islands in place of the previous democratic government under which the British people of the Islands had lived peacefully in British territory for a century and a half'. Given the fact that Argentina was intent on consolidating its grip on the Islands, Britain had no choice but to exercise its right of self-defence under Article 51 of the Charter. At the same time, although it was entitled to call for the restoration of the *status quo ante*, Britain had been prepared to negotiate a peaceful solution and had shown flexibility in the ensuing exchanges.

Basic Principles

Setting out some basic principles, Sir Anthony said that Argentina's invasion was contrary to the obligation under Article 2 of the United Nations Charter 'to refrain from the use of force in any manner inconsistent with the purposes of the United Nations'. Moreover Article 1 of the Charter obliged member states to bring about the settlement of international disputes by peaceful means. Both the Argentine use of force and the military occupation of the Falkland Islands were illegal acts and were also a violation of the Declaration on Friendly Relations adopted by consensus in 1970 and stating that 'the territory of a state shall not be the object of military occupation resulting from the use of force in contravention of the provisions of the Charter'. Since resolution 502 had proved insufficient to bring about withdrawal, Britain was fully entitled to exercise the right of self-defence recognised by the Charter. 'If the Charter were otherwise, it would be a licence for the aggressor and a trap for the victim of aggression. The first use of force to settle disputes, to seize territory and to subjugate peoples is something which the Charter was intended to prevent.'

Turning to the principle of self-determination, Sir Anthony said that Article 73 of the Charter recognised that the interests of the inhabitants of non-self-governing territories like the Falkland Islands were 'paramount'. At the same time the inhabitants were 'within the system of international peace and security established by the present Charter'. The provisions about peaceful settlement of disputes and the non-use of force therefore applied equally to non-self-governing territories. Article 73 also spoke of the development of self-government and free political institutions. The Falkland Islanders possessed such institutions, Sir Anthony said, and it was a mockery of the right to self-determination for Argentina 'to replace a democratic government and democratically elected bodies in the Falkland Islands with a military dictatorship'. It added insult to injury when this dictatorship was attempting 'to change the way of life of the Falkland Islanders, to bring in settlers, to buy up land, to impose the Spanish language, to change the curricula in the schools and so on'. All this smacked of colonialism and was 'quite clearly contrary to the right of self-determination protected by the Charter'.

Emphasising that the United Nations had since 1945 accepted that the Islands were a non-self-

governing territory and that Britain was the administering authority, Sir Anthony pointed out that Britain had fulfilled its obligations under Article 73 by introducing political advances in the form of legislative and executive councils, both of which had elected members. The British Government was not prepared to see these bodies abolished. Moreover, the Islanders had been in the Falkland Islands as long as, or longer than, most families in Argentina. They were 'an entirely separate people, with a different language, culture and way of life from the people of Argentina'. Both peoples were entitled to live under their own systems of government and Argentina had no right 'to deny the right of self-determination to the people of the Falkland Islands'.

On sovereignty, Sir Anthony said Britain possessed this on the basis of eighteenth-, nineteenth- and twentieth-century history, the nationality of the population, the freely chosen wishes of the people, and the achievements of the people in the territory. 'The Falkland Islanders have every right to the Islands and have every interest in being allowed to go back to their former way of life as soon as possible.'

Negotiations

Reviewing the recent negotiations conducted under the good offices of the Secretary-General, Sir Anthony said that the British Government had 'exerted itself with the utmost good faith and the strongest sense of urgency'. It would have been legitimate for Britain to have simply demanded the total withdrawal of the aggressor, the restoration of the *status quo*, and a resumption of the diplomatic negotiations. Instead, it had been willing to accept parallel withdrawal of forces and a short interim period under United Nations administration in order to 'enable diplomatic negotiations to go forward for a definitive settlement of the problem'. In addition, while insisting on the retention of the Islands' democratic institutions during the interim period, it had been prepared to accept 'Argentine representation in these institutions disproportionate to the size of the Argentine community'. Britain also remained prepared to negotiate with Argentina about the long-term future of the Islands, 'subject to the outcome of the negotiations being in no way predetermined or prejudged in advance'.

Argentina's response, Sir Anthony said, had amounted to a comprehensive rejection of Britain's proposals, especially in its insistence on including South Georgia and the South Sandwich Islands in the agreement; its demand for an unequal and unacceptable process of withdrawal of forces; its rejection of the continuation during the interim period of the democratic institutions of the Islands; and its demand for freedom of access with respect to residence and property during the interim period with a view to enabling it 'fundamentally to change the demographic status of the Islands'. In addition there had been 'no assurance . . . that Argentina had agreed to language which would leave it beyond doubt that the outcome of the negotiations should not be prejudged at the outset'.

Sir Anthony said that the Secretary-General had made 'a laudable last minute attempt to see if the wide gulf between the parties could be bridged'. While Britain appreciated the positive aspects of his initiative, it had differed in important respects from Britain's final position and even if acceptable to both sides as a basis for negotiation, it would have taken days if not weeks to know whether success could be achieved. Sir Anthony continued: 'I told the Secretary-General that before commenting in detail on his ideas, we would first need to see comprehensive comments from the Argentine side on every single point in them. The gulf was so wide between our final position and the response of the Government of Argentina that it would have been fruitless to continue unless we could have been certain that the Argentine reaction comprised a fundamental change of position and major movement towards positions which my Government could accept. No such reaction had been received by last night.'

Sir Anthony said he had made clear to the Secretary-General that, although the British Government's mind would never be closed to any avenue which promised to bring about a peaceful solution, Britain could not allow itself to be inhibited from carrying out military action in accordance with its right to self-defence under Article 51 of the Charter.

Security Council Resolution 505

On 26 May the Security Council unanimously passed resolution 505 reaffirming resolution 502 and requesting the Secretary-General 'to undertake a renewed mission of good offices bearing in mind Security Council resolution 502 and the approach outlined in his statement of 21 May 1982', and urged both parties to co-operate fully in his mission with a view to ending the hostilities in and around the Islands. The resolution requested the Secretary-General 'to enter into contact immediately with the parties with a view to negotiating mutually acceptable terms for a ceasefire, including, if necessary, arrangements for the dispatch of United Nations observers to monitor compliance with the terms of the ceasefire', and 'to submit an interim report to the Security Council as soon as possible and in any case not later than seven days after the adoption of this resolution'.

Explaining Britain's support for the resolution, Sir Anthony Parsons told the Council that it contained a reaffirmation of resolution 502 which had called for an unconditional withdrawal of Argentine forces from the Falkland Islands. Britain would co-operate fully with the Secretary-General in his new mission. Sir Anthony emphasised that the only acceptable condition for a ceasefire was that 'it should be unequivocally linked with an immediate commencement of Argentine withdrawal'. A verbal commitment by Argentina would not be sufficient, for Britain wanted 'practical and irrevocable arrangements for immediate withdrawal'. Moreover, given the fact that the situation had changed since 21 May (see below), Britain could not now accept that Argentine withdrawal be linked in any way to parallel British withdrawal.

Reporting to the Security Council on 2 June Mr Perez de Cuellar said that on 26 May he had met separately the British and Argentine representatives and had requested them to provide within 24 hours a statement of the terms they considered acceptable for a ceasefire. Both Governments had complied but although he had explored various approaches in seeking the degree of agreement necessary for a ceasefire, there was no possibility of a ceasefire mutually acceptable to both sides.

Paying tribute to the Secretary-General for his efforts, Sir Anthony Parsons told the Council on 2 June that Britain's position was that 'it would welcome a ceasefire which was inseparably linked to the commencement of the withdrawal of Argentine forces and to the completion of their withdrawal within a fixed period'. This was based squarely on resolution 502. The conditions, however, for a ceasefire did not exist until the Government of Argentina changed its position. Sir Anthony continued: 'A ceasefire which is not inseparably linked to an immediate Argentine withdrawal would not be consistent with resolution 502 because that resolution demands the immediate withdrawal of all Argentine forces from the Falkland Islands. The call for an unconditional ceasefire would leave Argentine forces in position'. Since the call for a ceasefire contained in the draft resolution before the Council did not link the ceasefire with withdrawal, Britain would be obliged to oppose it.

On 4 June the Security Council voted on a draft resolution reaffirming resolutions 502 and 505 and requesting both parties to cease fire and 'to initiate, simultaneously with the ceasefire, the implementation of resolutions 502 and 505 in their entirety'. Sponsored by Spain and Panama the resolution received nine votes and there were four abstentions. Britain and the United States voted against, although after the vote the United States Representative, Mrs Jeane Kirkpatrick, said that she had been instructed by her Government to report that were it possible to change its vote the United States would change it from a veto to an abstention. Mrs Kirkpatrick explained that the instructions to abstain had arrived too late.

In his explanation of Britain's vote, Sir Anthony Parsons re-emphasised that the draft resolution did not meet the criteria of an immediate ceasefire 'linked inseparably to the immediate and total withdrawal of all Argentine forces from the Falkland Islands'. The wording of the draft would enable 'Argentina to re-open the endless process of negotiation, thus leaving Argentine armed forces in illegal occupation of parts of the Islands'. This was totally unacceptable to Britain.

SUPPORT FOR BRITAIN

After Argentina's aggression Britain received full support from European Community member states who imposed an arms and trade embargo against Argentina (see p 109). In force for one month, the trade embargo was renewed for a week on 18 May although it was agreed that Italy and the Irish Republic should be allowed not to continue applying it. Nevertheless both countries gave an assurance that they would consult the European Commission in order to prevent any diversion of trade. On 24 May Community foreign ministers agreed to continue economic sanctions against Argentina for an unlimited period. Although Italy and the Irish Republic were not covered by this decision, both countries undertook to ensure that the general effort of the Community was not undermined.

Since the breakdown of Mr Haig's attempts to achieve a peaceful settlement (see pp 153-4), the United States has continued to support Britain. Addressing members of both Houses of Parliament on 8 June during his visit to Britain (see p 197), the United States President, Mr Ronald Reagan, referred to the British troops in the South Atlantic: 'They fight for a cause, for the belief that armed aggression must not be allowed to succeed, and that people must participate in the decisions of government under the rule of law.' The Queen, speaking at a banquet on 8 June, in honour of the President, thanked Mr Reagan for the support of the United States and said: 'These past weeks have been testing ones for this country, when once again we have had to stand up for the cause of freedom. The conflict in the Falkland Islands was thrust on us by naked aggression, and we are naturally proud of the way our fighting men are serving their country. But throughout the crisis, we have drawn comfort from the understanding of our position shown by the American people.'

The issue of the Falkland Islands was also discussed at the Versailles economic summit (see p 201) which met from 4 to 6 June. Summing up the proceedings in a press conference on 6 June, the French President, M. François Mitterrand, stated: 'We expressed our complete solidarity with the United Kingdom [which] has been the victim of aggression .... The United Kingdom must recover what [it] has lost and we must do what we can to ensure that peace will prevail over war.' Giving a report to the House of Commons on 8 June (*Hansard*, Vol 25, No 127, cols 22-31), Mrs Thatcher said that there had been agreement among the heads of State and Government at Versailles 'on all the essential points of the British position' and that this had been 'underlined unequivocally by President Mitterrand in his press conference at the end of the meeting'. The Prime Minister also emphasised that the United States was 'staunchly behind Britain in its action in the Falkland Islands' and was giving 'substantial practical help'.

MILITARY DEVELOPMENTS

Following Argentina's rejection of Britain's proposals for an interim settlement, British forces were landed in the San Carlos area of East Falkland on 21 May, the landing being complemented by attacks on the airfield at Goose Green and the bombardment of military installations south of Stanley. The operation was protected by Royal Navy vessels stationed in Falkland Sound and by Sea Harriers operating from the task force's aircraft carriers. Subsequently, these defences were reinforced by Rapier air defence

missile batteries deployed ashore. In heavy air attacks, in which Argentina lost more than a third of the aircraft taking part, the British air defence screen was penetrated and five ships were damaged; of these, the frigate HMS *Ardent* was sunk, 22 of the crew being killed and 17 injured. In renewed attacks on 23 May the frigate HMS *Antelope* sustained severe damage, one of the crew being killed and seven injured. The ship later sank after a large explosion, a bomb disposal officer losing his life. Argentina's losses amounted to two-thirds of the aircraft involved.

In other Argentine air attacks in the South Atlantic, the destroyer HMS *Coventry* was hit by several bombs on 25 May and later capsized; there were about 20 deaths and 20 other casualties among the crew. On the same day the Merchant Navy ship, the *Atlantic Conveyor*, was hit by an Exocet missile and was set on fire, some 13 crew members being killed and a small number injured.

British forces advanced from the San Carlos bridgehead and, following a battle in which 17 British soldiers (including the commanding officer) and some 250 Argentine soldiers died, took the settlements of Goose Green and Darwin on 28 May. In another and more northerly advance from the San Carlos bridgehead, other forces seized Douglas and Teal Inlet. By the beginning of June the high ground around Mount Kent, some 12 miles from Stanley, had been occupied.

On 8 June, in operations designed to increase the pressure on the Argentine garrison positioned in and around Stanley, some 50 British soldiers were killed when Argentine aircraft successfully attacked two Royal Navy Fleet Auxiliary landing ships, the *Sir Galahad* and *Sir Tristram*, as they were landing troops at Bluff Cove near Fitzroy. Further casualties occurred on 12 June when 13 crewmen were killed during an attack on HMS *Glamorgan*, which was providing naval support to land forces advancing on Stanley. On 13 June, however, Argentine defences around Stanley were breached, and on the following day with British forces on the outskirts of the town, talks on a ceasefire began between the commander of the Argentine forces, General Menéndez, and the British deputy commander, Brigadier Water. At 1 am London time, the Argentine forces, numbering some 10,000, surrendered.

North Atlantic Treaty Organisation

Meeting in May, member countries of the North Atlantic Treaty Organisation (NATO) reaffirmed the need to maintain an adequate defence in the face of the Soviet Union's destabilising activities throughout the world, and their determination to improve East-West relations by seeking a genuine détente and arms control and reduction agreements. They also condemned Argentina's invasion of the Falkland Islands and its failure to carry out the UN Security Council's resolutions 502 calling for the withdrawal of its forces from the Islands.

The Council, attended by the foreign ministers of NATO's member states, met in Luxembourg on 17 and 18 May and took the opportunity to welcome the impending accession of Spain to the North Atlantic Treaty (which took place on 30 May). The Council was preceded by meetings of NATO's Defence Planning Committee and its Nuclear Planning Group and of the Eurogroup.

NORTH ATLANTIC COUNCIL

East-West Relations

In order to assure a balance of military forces between NATO and the Warsaw Pact and to deter aggression and other forms of pressure, ministers reaffirmed their determination to maintain adequate military strength and political solidarity. This would also assist them in their efforts to establish a more constructive East-West relationship aimed at achieving genuine détente through dialogue and negotiation. Arms control and disarmament, together with deterrence and defence, were integral parts of NATO's security policy, ministers added.

Substantial improvements in East-West relations depended, however, on the readiness of the Soviet Union and the other Warsaw Pact countries 'to exercise restraint and responsibility in deeds as well as in words', but the Soviet Union's claims to peaceful intentions had been contradicted by its continued military build-up, its aggression against the people of Afghanistan, its encouragement and support for martial law in Poland and its destabilising activities elsewhere in the world.

Noting that the Soviet aggression against Afghanistan was meeting growing resistance by the Afghan people, ministers re-emphasised their support for United Nations proposals, repeatedly ignored by the Soviet Union, for a political solution based on the total withdrawal of Soviet forces and respect for the independence, sovereignty and non-alignment of the invaded country. Soviet behaviour was unacceptable and had resulted in a mounting toll of death and destruction and more than 3 million refugees. Describing the continued oppression of the Polish people since the imposition of martial law as a violation of the United Nations Charter and the Helsinki Final Act of 1975, ministers again called upon the Polish Government to end the state of martial law, release all those detained and restore genuine dialogue with the Church and the independent trade union, Solidarity (see pp 7-12 and 67-70).

Ministers also stressed the importance in East-West relations of maintaining a stable situation in and around Berlin and, recalling their May 1981 statement (see p 140, 1981), expressed the hope that the continuation of the dialogue between the Federal Republic of Germany and the German Democratic Republic would lead to increased benefits for Berlin and the people in both German states.

Noting the importance of economic exchanges in the development of a stable East-West relation-

ship, ministers reaffirmed their decision, made in January, to review East-West economic relations (on which Greece recalled its position on various aspects), bearing in mind the need for these to be mutually advantageous and to take full account of security considerations, especially regarding export credits and the dangers involved in transfers of militarily relevant technology to Warsaw Pact countries. The recovery of the economies of NATO countries, they continued, was 'essential and integral to their defence effort' and they undertook to work together to further the prosperity of their peoples and the world economy. In particular, they recognised 'the need for continued support for programmes intended to benefit the economies of the less-favoured Allied partners in keeping with Article 2 of the North Atlantic Treaty'.

Defence and Arms Control

Emphasising that Soviet policies confirmed the need for the Alliance to maintain a strong and credible defence, ministers explained that peace could only be preserved if the Allies had the capacity and the will to defend themselves at any level in any region of the North Atlantic Treaty area. This required a wide range of conventional and nuclear forces designed to persuade any potential aggressor that an attack would be repulsed and would expose him to risks out of all proportion to any advantages he might hope to gain.

This policy of deterrence had kept peace in Europe for over 30 years and, ministers added, was essential 'to bring the Soviet Union to negotiate seriously on the reduction and control of armaments'. Reviewing recent Western proposals designed to improve security and achieve a military balance at the lowest possible level of forces, they called upon the Soviet Union to respond 'without further delay' and 'in a positive way'. On strategic arms, the Council welcomed President Reagan's proposal to President Brezhnev to begin the strategic arms reductions talks (START) by the end of June. The United States' intention to seek significant reductions in the strategic armaments of the two countries was 'a far-reaching but realistic offer that would lead to a significant increase in strategic stability and thereby strengthen peace and international security' [1]

Within the framework of START and pursuant to the December 1979 decision on intermediate-range nuclear forces modernisation and arms control (see pp 13–14, 1980), the United States was also continuing to negotiate with the Soviet Union on the basis of 'an imaginative proposal' for the limitation of their respective intermediate-range systems. (Regarding the December 1979 decision, Greece reserved its position.) This approach offered 'the chance for fair and effective agreements' and the Allies, who had remained in close consultation with the United States, supported its efforts to reach such agreements (see pp 259-60, 1981).

Turning to the mutual and balanced force reduction negotiations in Vienna, the Allies taking part reaffirmed their willingness to work for an agreement that would strengthen security and peace in Europe through force reductions to equal collective manpower levels in the area of reductions. Negotiations could only succeed if the Warsaw Pact participants co-operated in reaching agreement on existing force levels and on adequate associated measures to enhance stability and to verify compliance.

On the Madrid follow-up meeting reviewing the progress of security and co-operation in Europe, (see pp 351-5, 1980), ministers reaffirmed NATO's commitment to developing and strengthening the process initiated by the 1975 Conference on Security and Co-operation in Europe (CSCE). Despite the severe obstacles posed by the persistent violations by the East of the CSCE's Final Act (most recently and flagrantly in Poland), they hoped that it would be possible to adopt a substantive and balanced concluding document covering all areas of the Final Act, including human rights, human contacts and information, when the Madrid meeting reconvened in November. The Council also reiterated its support for a conference on security and disarmament in Europe and for adoption at Madrid of a precise mandate 'for negotiations in an initial phase of confidence - and security-building measures' that would be 'militarily significant, binding, verifiable and applicable throughout the whole of Europe from the Atlantic to the Urals'.

Ministers restated their intention to play a constructive part in the UN Second Special Session on Disarmament (which opened in New York on 7 June), and hoped that discussion there would take full account of the need for openness and adequate verification provisions in all areas of arms control and disarmament.

Falkland Islands Crisis

Upholding the principle that the use of force to resolve international disputes should be resolutely opposed, ministers condemned Argentina's aggression against the Falkland Islands and Dependencies (see p 180) and deplored its failure to withdraw its forces from the Islands in compliance with the mandatory Security Council resolution 502. They called for a continuation of the efforts to achieve a satisfactory negotiated settlement in accordance with the resolution in its entirety.

Other Issues

After condemning acts of terrorism and appealing to all governments to wage an effective struggle against 'this scourge', ministers turned to other developments outside the NATO area that could have consequences for their common interests.

[1] The United States proposal, made in May, is a two-phased one. The first phase would focus on systems which represent the greatest potential danger to stability, the intercontinental and submarine-launched ballistic missiles, and seeks a reduction in the numbers of land- and sea-based ballistic missile warheads to equal ceilings at least one-third below current levels, and for no more than half of the reduced number of warheads to be land-based. In the second phase, other elements of the strategic nuclear forces would be reduced to equal ceilings, with limits on the total destructive power of ballistic missiles less than current US levels. In both phases, strict verification procedures to ensure compliance with the agreement would be required.

Member countries in a position to do so were ready to help other sovereign nations to resist threats to their security and independence, and ministers undertook to work with others to strengthen and maintain the sovereignty and independence of countries in the Third World. In particular, they expressed respect for genuine non-alignment and their support for economic and social development which would contribute to world stability and provide protection against outside interference. They also promised to continue the struggle against hunger, poverty and under-development.

DEFENCE PLANNING COMMITTEE

Ministers attending the NATO Defence Planning Committee in Brussels on 6 and 7 May reviewed the defence efforts of member countries in the light of the international situation. The review underlined the validity of NATO's strategy of deterrence and defence coupled with a strong commitment to arms control and disarmament, and ministers expressed their determination to take the measures necessary to ensure the continuing effectiveness of the NATO deterrent. This, they noted, depended on conventional, as well as nuclear, forces. In this context ministers welcomed NATO's recent publication[1] which clearly indicated the growing numerical superiority of the Warsaw Pact forces, especially in personnel, longer range intermediate nuclear missile systems, submarines, aircraft and tanks, as well as the Soviet Union's marked advances in technology and its strongly increasing arms production capability.

Reviewing the considerable progress in the modernisation of forces under the Long-Term Defence Programme (p 11, 1981), ministers acknowledged that the achievement of the NATO force goals for the period from 1983 to 1988 would pose a significant challenge, underlining the importance of adhering to the planned 3 per cent increase in defence expenditure despite financial and economic constraints. In this connection, they reaffirmed the urgent need for continued and intensified military assistance to member countries suffering from particularly serious economic difficulties.

Ministers said that arms control agreements resulting in substantially reduced, equal and verifiable levels of forces would significantly enhance international security, and warmly welcomed the determination of the United States to begin strategic arms reduction talks with the Soviet Union. They also fully supported the United States zero-option proposal on intermediate-range nuclear forces (see pp 359–61, 1981) and stressed the importance of continuing the preparations and, in the absence of reaching a concrete agreement with the Soviet Union, of maintaining the schedule, for the planned deployment of ground-launched cruise and Pershing II missiles in Europe. (Greece reserved its position on the deployment of these forces.)

Noting that military aggression in areas outside NATO could threaten the vital interests of NATO members, ministers reaffirmed that consultations on any out-of-area deployment of forces, such as envisaged in the United States Rapid Deployment Force (see p 11, 1981), were intended to identify common objectives, 'taking full account of the political situation in the area concerned and of the effect on Alliance security and defence capability as well as the national interests of member countries'. Recognising that the policies member countries adopted on this issue were a matter for national decision, they agreed that the effect of such deployment on Alliance security and defence capability should be examined collectively in the appropriate NATO bodies. It was also agreed that, in the light of consultations, members may be required to facilitate out-of-area deployments 'in support of the vital interests of all'.

In conclusion, while expressing concern at the serious challenges facing NATO, ministers were encouraged by the 'considerable achievements in arriving at common policy positions concerning current issues and in particular in reaching agreement on a wide range of defence policies, projects and planning objectives'. These agreements reached among sovereign nations in a spirit of Alliance co-operation were 'a source of strength and confidence for NATO'.

NUCLEAR PLANNING CROUP

Meeting at Colorado Springs on 23 March defence ministers discussed issues involving nuclear weapons and arms control and the importance of keeping the public clearly aware of the basic principles of NATO nuclear policies.

Outlining the principles on which the Alliance was founded, ministers explained that NATO 'has never and will never initiate the use of force', its defensive posture being designed 'solely to protect the territorial integrity and independence of Alliance member countries', and thereby to preserve the values and liberties which were fundamental to democratic societies. Its strategy of deterrence and defence relied on a triad of forces – strategic nuclear, intermediate- and short-range nuclear, and conventional forces – and ministers reaffirmed their determination to maintain this range of forces at a level adequate to preserve 'peace and freedom by denying to a potential adversary any realistic prospect of securing advantage through intimidation or military action at any level'.

Trends in the strategic capabilities of the Soviet Union and the United States and the continuing build-up of the Soviet Union's strategic forces were discussed by ministers, their conclusion being that 'strategic nuclear forces remain the ultimate guarantee of NATO's security'. Ministers also emphasised that balanced, effective and verifiable arms control agreements, leading to substantially reduced levels of conventional and nuclear forces, would play an important role in enhancing security and in achieving a stable relationship between East and West.

Agreeing that thorough consultation within the Alliance on all aspects of arms control negotiations remained essential, ministers expressed full support for the United States commitment to

[1] *NATO and the Warsaw Pact: Force Comparisons.*

negotiate an equitable and verifiable agreement on strategic nuclear weapons with the Soviet Union resulting in substantial reductions. Similarly, noting that NATO's resolve in implementing its 1979 decision regarding intermediate-range forces was a key factor in persuading the Soviet Union to enter arms control negotiations on these forces and crucial to achieving concrete results, ministers reiterated full support for the United States negotiating position. They called again on the Soviet Union to respond in good faith to the offer to cancel the deployment of US cruise and Pershing II missiles if the Soviet Union eliminated its SS20, SS4 and SS5 missiles, and emphasised that concrete progress could be made quickly by focusing initially on the systems acknowledged to be of most concern to both sides, that is, longer range land-based missiles.

Ministers expressed concern that the Soviet Union had deployed about 300 SS20 missiles with about 900 nuclear warheads, with more bases under construction. This was about 200 missiles more than were deployed in December 1979. This meant that the various Soviet proposals to freeze future deployment of such systems would simply perpetuate the Soviet monopoly in them, with not a single SS20 having to be destroyed while NATO would be unable to deploy any intermediate-range nuclear missiles. Moreover, the SS20s were a threat to NATO wherever they were placed and the proposed freeze would leave the Soviet Union free to continue its build-up east of the Urals, well within the range of Western Europe. Ministers also noted Soviet deployment of the SS22 and the development of the new SS23 missiles systems (replacements for the older SS1 and SS12 shorter range missiles), and that the SS22 had the range to cover a substantial proportion of Western Europe, as would the SS23 if it were to be deployed in forward areas.

Against this background, ministers reiterated the importance of continuing their preparation for the deployment of cruise and Pershing II missiles. The intention was not to match Warsaw Pact capability weapon for weapon, but to reinforce the NATO strategy of flexible response by linking even more closely the United States strategic deterrent to the defence of Western Europe, thus reflecting the fundamental premise that the security of the United States was inseparable from that of its Allies. This inseparability 'enhances deterrence, reduces the risk of miscalculation by the Soviet Union and excludes the possibility of a nuclear threat confined to Europe'. Ministers concluded that, in the light of the existing imbalance, the deployment of cruise and Pershing II missiles would have to be carried out in the absence of an agreement on intermediate-range nuclear forces.

EUROGROUP

Reaffirming that European security depended on the partnership with North America in the North Atlantic Alliance, defence ministers of the Eurogroup,[1] meeting in Brussels on 5 May, reaffirmed their aim to strengthen the Alliance by making the European contribution to defence 'as strong and cohesive as possible'. This contribution had risen significantly in financial terms over the last decade, as a proportion of total resources available to the Alliance, and now accounted for 90 per cent of the readily available ground forces in Europe, 75 per cent of the air forces, a similarly high proportion of maritime forces, and part of NATO's nuclear deterrent forces. Nevertheless, pointing to the adverse trend in the balance of forces brought about by the activities of the Soviet Union and the Warsaw Pact, ministers emphasised that the presence in Europe of substantial North American forces, the capability for Europe's rapid reinforcement and the retention of the United States nuclear commitment remained integral to European security.

In view of the interdependent nature of NATO's defensive arrangements, ministers said that the costs and benefits of these should be shared fairly between the European and North American Allies. They also expressed their full support for the work of the Independent European Programme Group in promoting a more cost-effective use of the Alliance's financial and industrial resources. Referring to the need for greater co-operation between Europe and North America in arms procurement, they pointed to the need for this to develop on a genuine 'two-way street' basis.

Ministers also approved measures of restructuring designed to develop the Eurogroup as a forum for substantial political and strategic discussion on defence matters of common interest.

[1]The members of the Eurogroup are Belgium, Britain, Denmark, the Federal Republic of Germany, Greece, Italy, Luxembourg, the Netherlands, Norway, Portugal and Turkey.

European Community

The Community's adoption of the 1982 farm prices by a breach of the 1966 Luxembourg compromise,[1] under which discussion on major issues of national interest continues until unanimous agreement is reached, has been criticised by Britain. A settlement of Britain's contribution to the Community budget for 1982 was agreed in late May.

Britain had opposed the farm price increases because they would have added £120 million to Britain's net contribution to the Community's budget at a time when negotiations on budgetary reform, aimed at shifting the balance of Community spending away from agriculture in order to solve the problem of Britain's large-scale net

[1]Although under the Treaty of Rome unanimity is the rule when taking decisions in many specific areas, the Treaty provides that in certain other clearly defined areas of Community business decisions should be taken by qualified majority voting, each member state having a prescribed number of votes. In 1965 the French Government argued that qualified majority voting should not be applied if a member state considered that its very important national interests were involved. Following a compromise reached in Luxembourg in January 1966, which recorded an agreement to disagree, the Community has consistently abided by a procedural convention that if a member state makes clear that its important national interests are involved, discussion is continued and no vote is taken.

contributions, were far from complete. In Britain's view the price-fixing decisions could not be divorced from the budgetary implications.

FARM PRICE SETTLEMENT

On 18 May seven of the ten Community agriculture ministers voted for a package of farm price increases against the wishes of Britain, Denmark and Greece. At the conclusion of the meeting the Minister of Agriculture, Fisheries and Food, Mr Peter Walker, told the other ministers that he had made a formal statement dissociating Britain from the procedure under which the price decisions had been pushed through 'against the fundamental objections of three member states'. The British Government considered that important national interests were involved and that 'in accordance with the established practices of the Community, discussion should have continued in this Council until the unanimous agreement had been reached'. Mr Walker added: 'It has always been accepted that it is a matter for the individual member state to decide when its important national interests were involved. Two other member states have joined with us today in endorsing this view.'

Mr Walker said that Britain had maintained its reserve on the level of price increases and on the budgetary costs of the proposal. 'No-one can deny that this places a further financial burden on the United Kingdom and there is, therefore, a direct and organic link between the price-fixing decision and the budget negotiations. I totally reject the argument that the price-fixing decisions can be regarded as divorced from the budgetary implications.' Britain had maintained all along that there was a direct link and this had been recognised by all member states who had agreed that the parts of the May 1980 mandate[1] should proceed in parallel.

Rejecting the argument that the Council was faced with a legal void which had to be filled by pushing through the price increases by majority voting, Mr Walker pointed out that there was no requirement in the Treaty, as had been confirmed by the Council's legal adviser, to reach decisions on agricultural prices by any particular date. In two of the last three price fixings the date of decision had been later than 18 May. The minister also rejected the charge that Britain had not been ready to negotiate constructively for an agreement on the budget. On several occasions Britain had sought a compromise during the budget discussions and on 14 May had shown readiness to negotiate for a one-year settlement in the interests of reaching early agreement. The British Government had also made it plain on 17 May during a foreign ministers meeting that it was prepared to negotiate.

In conclusion Mr Walker said that the Council had chosen to alter fundamentally working practices based upon the 1966 agreement and that the British Government totally dissociated itself from the procedure adopted by the Council.

[1]In May 1980 foreign ministers agreed to review the pattern of Community expenditure and the operation of the budget with a view to solving the problem by means of structural change and to prevent the recurrence of unacceptable situations for any member state (see pp 182-4, 1980).

PARLIAMENTARY DEBATE

Opening a debate in the House of Commons on 26 May concerning Britain's contribution to the European Community budget and the vote in the Council of Ministers on the 1982 farm price settlement (*Hansard*, Vol 24, No 124, cols 936-1012), the Foreign and Commonwealth Secretary, Mr Francis Pym, said that membership of the Community was one of the central features of British foreign policy and that the best course for the British Government was to make a success of it.

Luxembourg Compromise

Mr Pym said that the vote at the Council of Agriculture Ministers on 18 May constituted 'a major departure from the way in which Community business has customarily been conducted' and would 'have the most serious implications for the future'. Noting that this was the first time that decisions had been taken by majority vote since the Luxembourg compromise of 1966, Mr Pym said that it had been the consistent policy of the Community that, if a member state made clear that its important national interests were involved, discussion was continued and no vote was taken. This procedural convention had been set aside for the first time and without the agreement of all the parties involved. All British Governments had made clear the importance they attached to the Luxembourg compromise. 'Its terms were explained in the White Paper dealing with our accession to the Community and the procedure was regarded as an inherent and essential safeguard. Suddenly . . . it has been disregarded on grounds that we do not accept as justifiable, and I have made this very clear officially and in no uncertain way.' On 24 May, continued Mr Pym, Britain had informed its partners that the Government took the gravest view of what had happened. 'It was quite unjustified . . . . The Community's practice must apply equally to all members, and there must be a means of safeguarding the important national interests of any member state.' The Foreign Secretary hoped that an absolutely clear understanding would be reached for the future at a meeting of the Council of Ministers in June.

Community Budget

Turning to Britain's budget contribution, Mr Pym said that successive British Governments had attempted to arrive at a situation where the budgetary demands made on Britain were equitable and were seen as such by the British people. Britain's prosperity was less than average for the Community, but it was 'a net contributor on a large scale to the Community budget, from which all but one of the other members [derived] a net benefit'. This was 'unacceptable to the British people and damaging to the Community'. In the accession negotiations Britain had received assurances that the structure of the budget would change, that agricultural expenditure would take up a lesser proportion, that the pattern of British external trade would alter and that the problem would thereby be greatly reduced. An undertaking

had also been given that 'if an unacceptable situation arose the very survival of the Community would require the institutions to find a solution'. The May 1980 agreement (see pp 182-4, 1980) had shown that the other member states had recognised that such a situation had indeed arisen and it had produced 'very large reductions in Britain's net contribution to the Community budget in 1980 and 1981'. It had also provided for the European Commission to produce a report and for decisions to be taken by the end of 1981 on a longer-term solution to the problem. If this target were not met there was provision for a third year of refunds.

The Commission's report, continued Mr Pym, noted that the British problem had arisen largely from the excessive concentration of Community expenditure on agriculture from which Britain received relatively little benefit. It had therefore proposed a series of measures 'designed to shift the balance of the Community's spending away from agriculture and towards other policies'. The Commission had, however, realised that it would take some time to achieve this and that there had to be some arrangement for dealing with the problem until this structural change could take effect.

Mr Pym recalled that during Britain's Presidency of the Council of Ministers (from July to December 1981) the Government had made a determined effort to bring matters to a conclusion. In November 1981 member states had got close to endorsing a set of guidelines covering agricultural reform, the development of non-agricultural policies, and the budgetary adjustment. Progress thereafter, however, became 'painfully slow' and from January was 'more or less non-existent', valuable time being wasted on debating 'the absurd proposition that refunds paid . . . should decrease in succeeding years, whether or not the scale of [Britain's] net contribution grew less'. In March the Presidents of the Commission and the Council abandoned the guidelines approach and tried to break the deadlock with a new and simpler proposal. Britain had been prepared to discuss it constructively but at the end of March 'the President of France announced that he was not prepared even to accept it as a basis for discussion'.

In April, said Mr Pym, a new proposal was made providing 'simply for a lump sum refund for a period of three years, with no provision for any increase in the refunds if [Britain's] net contributions turned out to be higher than the Commission's conservative prediction'. Although pressed strongly to accept this, on a take it or leave it basis, at an informal meeting of foreign ministers in May, Mr Pym said that he had refused to do so but had expressed readiness 'to negotiate seriously towards a reasonable and fair settlement'. This readiness, however, was not matched by other member states.

Noting that by 10 and 11 May nine of Britain's partners had reached agreement on agricultural prices for 1982, Mr Pym said that it was clear that the package would not have contributed to the objective of shifting the balance of Community spending away from agriculture and that it would have added, in the absence of a budget agreement, £120 million to Britain's net contribution. Britain could not accept that when no end to the budget negotiations was in sight.

Mr Pym said that a suggestion was then made that the deadlock could be broken by dealing with the refunds for 1982 alone, leaving negotiation of a longer-term solution until later in the year. Britain had agreed to see whether an acceptable formula consistent with the May 1980 agreement could be found, but the Commission's proposal discussed on 17 May did not meet that criterion. On the next day the Luxembourg compromise was overridden when the Council of Agriculture Ministers adopted regulations by a majority vote.

In reviewing the situation, the Government had recognised that the prevailing atmosphere was unfavourable to an early agreement on the budget. There had been a real danger that Britain and its partners would become 'more deeply ensconced in irreconcilable positions' and talk themselves into a crisis that 'might have done considerable damage to the cohesion of the Community and to Britain's own long-term interests within it'. On 25 May, therefore, Community foreign ministers reached an agreement for 1982 under which Britain accepted a basic refund of £490 million which, according to the Commission's estimates, would make its net contribution after refunds one of £390 million. The Commission's estimate for Britain's unadjusted net contribution for 1982 was £880 million: in the event of this being exceeded, any increase in the range £880 million to £908 million will be borne by Britain. The next £86 million will be split equally between Britain and the Community, and the other member states will finance 75 per cent of any increase over £994 million, with Britain paying the rest. If the Commission's estimate proves too high there will be a similar risk-sharing formula applying downwards.

The Foreign Secretary said that the Community had 'undertaken to reach decisions on the solution of the budget problem for 1983 and later years before the end of November 1982'. Admitting that the new settlement was 'less good than the Government would have wished' in terms of both duration and amount, Mr Pym said that it was an acceptable settlement for 1982 bearing in mind that Britain had fared better than expected in the earlier years. It would require a great effort to secure a satisfactory solution for 1983 and later years, but the Government would pursue these negotiations very rigorously. The achievements of the period from 1980 to 1982 gave a sound foundation for this work.

In conclusion the Foreign Secretary stressed that every member state needed an assurance that its important interests would be adequately safeguarded in the Community, and a way needed to be found for Britain to look forward to its fair share of the benefits of Community membership as well as the burdens.

Opposition Views

The Opposition spokesman on European Community affairs, Mr Eric Heffer, said that there had been a 'flagrant violation' of the Luxembourg compromise at the agriculture ministers' meeting on 18

May. He also pointed out that Britain was no nearer to a permanent settlement on the budget, and said that it was time that the Government began to make it clear that Britain did not intend to make any further contributions since these were bolstering the Common Agricultural Policy. British national interests demanded that no contribution should be paid unless the matter was satisfactorily settled in the interests of the British people.

The spokesman for the Social Democratic Party, Mr Roy Jenkins, who was President of the Commission from 1977 to 1981, said that the issue was not the level of agricultural prices but of linkage, a device employed in the past by member states on a variety of subjects. No country had previously invoked the Luxembourg compromise in the Council on the basis of what was happening in a separate Council, but nevertheless the compromise should not 'have been abrogated without prior discussion among the foreign ministers about its institutional consequences'. Observing that in the past the Luxembourg compromise had been invoked by member states on a number of 'fairly peripheral issues', Mr Jenkins said that it was in the interests of Britain to have a more effective decision-making process on the more minor issues.

Turning to the question of the budget, Mr Jenkins emphasised the need for a basic restructuring so that less was spent on agriculture and more on helping to deal with the problems of a largely industrial Community. Although Britain had to approach the matter from the point of view of national interest, it should not be afraid to talk of European interest and be prepared to fight the battle on higher ground. 'To be an advocate of movement and not of immobility in the Community would not only make national sense but move us from a position of too frequent isolation to one of leadership within the Community.'

Speaking for the Liberal Party, Mr Russell Johnston said that he wanted the Community to move towards majority voting in a sensible way. The Liberal Party also wanted a Community moving towards 'stronger supranational institutions able to undertake tasks beyond the capacity of individual member countries'. There was no point in being a member 'without give and take and common policies . . . seen to be fair to all'.

The Opposition spokesman on economic affairs, Mr Peter Shore, said that the budgetary arrangements entered into by the Treaty of Accession had been disastrous for Britain. Unless the Common Agricultural Policy was genuinely redesigned and unless the particular mix of taxes in 'own resources'[1] was changed, it would be impossible 'to see how any sensible and acceptable relationship between net contributions and capacity to pay [could] be achieved'.

Referring to the agricultural price settlement, Mr Shore said that Britain's principal means of exerting counter-pressure – by withholding consent to farm price increases – had been overriden and in effect dismantled and removed. The Luxembourg compromise was a central condition upon which Britain's consent to membership had been obtained and had now disappeared at a stroke. Britain should withhold forthwith all payments to the Community budget and the powers over legislation, taxation and treaty-making ceded to the Community should be returned to the British Parliament.

[1]The Community budget is financed largely by an 'own resources' system of levies on agricultural imports, customs duties, and a proportion, not exceeding 1 per cent, of the proceeds of the value added tax collected on an agreed range of goods and services.

Government Reply

Replying for the Government, the Minister of State at the Foreign and Commonwealth Office, Mr Douglas Hurd, said that there had been a breach in the Luxembourg compromise that had operated without exception for 16 years. It was a reasonable assumption that if the rules were to be changed 'the change should be sought through discussion and agreement and not smuggled in in the closing stages of a farm price negotiation'. Community decision-taking did not work well, but improvements could not be made by overriding vital national interests. Mr Hurd continued: 'It is impossible for most of us to imagine how the Community can prosper and proceed smoothly until there is again a clear basis for decision-taking that respects vital national interests. It is that basis which in some way has to be reconstructed.'

Turning to the budget question, Mr Hurd said that the real long-term answer was to obtain a balance of Community policies so that Britain did not have to continue arguing about the budget refund year after year. There had been progress, the Common Agricultural Policy taking 66 per cent of Community expenditure in 1981 compared with 80 per cent in 1979. Although this had something to do with world prices it was a significant drop in the proportion of total spending taken by agriculture.

Mr Hurd said that one of the few great achievements in an increasingly dangerous and in some respects disastrous world had been the construction of the Community. 'It cannot be right to undermine and destroy that achievement. It must be right to steer it to success.' Referring to the view that Britain as a good internationalist would do better outside the Community, Mr Hurd said that this produced a wholly unreal view of an outside world of 'tranquil, democratic, free trading countries' longing to welcome Britain's escape 'from the embrace of Brussels'. The truth was that the world was becoming year by year 'more dangerous and more narrow-minded' and large parts were quarrelling and in turmoil. Without Community membership Britain could not have operated sanctions against Argentina, and its partners had supported it because of a principle of Community solidarity which had held good in this particular case. Member states had made substantial strides towards a common foreign policy and this progress was continuing.

In conclusion Mr Hurd said that in the coming negotiations Britain would do what it could to obtain an equitable budget settlement and to get a clear and fair system of decision-making which would respect vital national interests.

Israeli Invasion of Lebanon

Following Israel's invasion of southern Lebanon in early June, Britain and its partners in the European Community have called upon Israel to withdraw its forces and reaffirmed their belief in Lebanon's independence and territorial integrity. Britain has also supported United Nations resolutions calling for a ceasefire by all parties to the conflict.

The hostilities began on 21 April when Israeli planes bombed Palestinian camps and bases in retaliation for an incident the same morning in which an Israeli soldier was killed when a landmine exploded in southern Lebanon. These led eventually to a large-scale Israeli invasion which began on 4 June, the day after an attempt on the life of Mr Shlomo Argov, the Israeli Ambassador to Britain, in London. In the following days Israeli forces occupied the entire southern Lebanon as far north as the Beirut to Damascus road, bombing and shelling the southern and western suburbs of Beirut itself. Syrian air and ground forces became involved in the conflict[1] and on 11 June a ceasefire between Israel and Syria was agreed. Fighting between Israeli and Palestinian Liberation Organisation (PLO) forces continued, despite various attempted ceasefires, until 18 June when a 48-hour ceasefire, arranged with United States assistance, came into effect. By this time Israeli forces had penetrated parts of Beirut, where they were being supported by some Lebanese Christian militia groups. At the same time Lebanon's President, Mr Elias Sarkis, was attempting to form a 'Committee of National Salvation', one of whose first tasks would be to try to deploy the regular Lebanese army in Beirut to avert a Palestinian-Israeli battle there.

Speaking at a news conference in Tel Aviv on 11 June, Israel's Defence Minister, Mr Ariel Sharon, said that Israeli forces would remain in Lebanon for 'as long as necessary' to complete their mission of 'guaranteeing peace and quiet along Israel's northern border'. Israel's Prime Minister, Mr Menachem Begin, has stated on various occasions, notably in a speech to the Knesset (the Israeli parliament) on 8 June, that Israel did 'not want even one square millimetre of Lebanese territory'. He said the day would come when Israel would 'resume negotiations with the legitimate Lebanese Government' and would offer it 'a peace treaty based on absolute Lebanese territorial integrity'.

Background

Israel has long viewed Palestinian forces in southern Lebanon as a threat to the security of its citizens in northern Galilee. It was in response to attacks from across the border that Israel launched in March 1978 a previous major attack against Palestinian bases in southern Lebanon, occupying most of the area south of the Litani river after several days' fighting. On 19 March the United Nations Security Council passed a resolution calling on Israel to cease its military action, withdraw its forces from all Lebanese territory and observe 'strict respect for the territorial integrity, sovereignty and political independence of Lebanon within its internationally respected boundaries'. In addition the resolution requested the establishment of a United Nations Interim Force for southern Lebanon (UNIFIL) 'for the purpose of confirming the withdrawal of Israeli forces, restoring international peace and security and assisting the Government of Lebanon in ensuring the return of effective authority to the area'. Israel announced a unilateral ceasefire on 21 March 1978. On the following day UNIFIL started moving into position, progressively occupying territory as Israeli forces withdrew, a process which was completed on 13 June. However, an area up to 10 kilometres (6 miles) wide on the Lebanese side of the border passed under the control of Lebanese Christian militia and became, with Israel's support, a buffer zone separating Israel's northern territory from the Palestinian forces in southern Lebanon.

Despite UNIFIL's presence, minor violations and retaliatory acts continued and in July 1981 fighting broke out between Israel and the forces of the PLO, which included Palestinian rocket attacks on northern Israeli border settlements and an air raid by Israel on Beirut. On 21 July the United Nations Security Council passed resolution 490 calling for an immediate cessation of hostilities, and a ceasefire was arranged through United Nations and United States intermediaries. Although unwritten, it was accepted by both parties on 24 July (see pp 222–3, 1981).

Israel and the PLO have disagreed over the interpretation of the 24 July 1981 ceasefire, the PLO claiming that it applies only to operations across the Lebanese-Israeli border while the Israelis have maintained that it embraces attacks on Israeli targets and personnel anywhere in the world.

United Nations Security Council Resolutions

On 5 June 1982 the United Nations Security Council unanimously passed resolution 508 calling upon all parties to the conflict to cease immediately and simultaneously all military activities within Lebanon and across the Lebanese-Israeli border and requesting all member states in a position to do so to bring their influence to bear upon those concerned to this end. The Council expressed its grave concern at the violation of the territorial integrity, independence and sovereignty of Lebanon.

Explaining Britain's support for the resolution, Sir Anthony Parsons, the British Permanent Representative, said that he could not emphasise too strongly the 'shock and horror' felt by the British Government and people at the 'dastardly terrorist attack' on Mr Argov. Yet the attempted assassination, 'however despicable', did not in any way justify Israel's massive attacks on Lebanese towns and villages, which had already inflicted major loss of life, casualties and damage to property. These actions had also led to the collapse of the 'precarious ceasefire' which had been in effect in

[1]Some 30,000 Syrian troops, forming most of the Arab Deterrent Force established under the auspices of the Arab League, have been stationed in Lebanon since the 1975-76 civil war.

southern Lebanon since July 1981. 'It is imperative,' Sir Anthony continued, 'in the interest of peace in the region and for the sake of the suffering people in Lebanon, that there is no escalation of fighting and that the ceasefire is immediately restored.'

On 6 June the Security Council passed resolution 509 demanding that Israel 'withdraw its military forces forthwith and unconditionally to the internationally recognised boundaries of Lebanon' and reiterated its call for a ceasefire by all parties, requesting them to communicate to the Secretary-General their acceptance of the present resolution within 24 hours. In messages to the Secretary-General, the Lebanese Government and the PLO indicated their acceptance of the resolution. Israel, however, stated that any withdrawal of its forces prior to the conclusion of 'concrete arrangements which would permanently and reliably preclude hostile action against Israel's citizens' was 'inconceivable'. 'The inherent right of self-defence', it continued, 'is one of the fundamental rights of sovereign states.' A third, draft resolution, discussed by the Security Council on 8 June, was vetoed by the United States which said that it was 'not sufficiently balanced to accomplish the objectives of ending the cycle of violence'. The draft reiterated the demands for a ceasefire and an Israeli withdrawal and, additionally, condemned Israel for its failure to comply with resolutions 508 and 509.

Britain's View

Speaking in the House of Commons on 8 June (*Hansard*, Vol 25, No 127, cols 25-9) the Prime Minister, Mrs Margaret Thatcher, reaffirmed Britain's belief in Lebanon's right to territorial integrity and the right of Lebanon's neighbours to exist in peace and security. She stressed that the problem between Israel and the Palestinians would be solved only when the future of the Palestinian people themselves was resolved. 'Any country that demands the right of self-determination for itself must extend the same right to others, including the Palestinian people.'

European Community Statement

The foreign ministers of the European Community meeting in Bonn on 9 June issued a statement condemning the Israeli invasion of Lebanon. Like the bombardments which preceded it and which caused 'intolerably high loss of human life', this action could not be justified: 'It constitutes a flagrant violation of international law and of the most basic humanitarian principles. Furthermore, it compromises the efforts to achieve a peaceful settlement of the problems of the Middle East and creates the imminent danger of a generalised conflict.' The ministers reaffirmed the importance they attached to the independence, sovereignty, territorial integrity and national unity of Lebanon, which were indispensable for peace in the region, and their support for Security Council resolutions 508 and 509, calling in particular on Israel 'to withdraw all its forces immediately and unconditionally from Lebanon and to place the United Nations Interim Force in Lebanon in a position to accomplish its mission without hindrance'. In conclusion, the Ministers expressed their readiness to 'assist in bringing the parties concerned to accept measures intended to lower the level of tension, re-establish confidence and facilitate a negotiated solution'. The European Community would be urgently examining the means at its disposal to give aid to the victims of these events.[1]

Other Reaction

On 7 June the United States State Department warned that 'a divided Lebanon must not be the outcome of this present violence' and that 'the Palestinians will have to stop using Lebanon as a launching pad for attacks on Israel'. During his address to both Houses of Parliament on 8 June (see below) the United States President, Mr Ronald Reagan, said that the fighting must stop and Israel should bring its forces home. The heads of Government meeting at Versailles (see p 201) strongly endorsed the appeals made by the United Nations Security Council for an immediate and simultaneous cessation of hostilities. In their view, 'this cycle of violence, if it were to continue, could have disastrous consequences for the whole area'.

Visit of United States President

President Ronald Reagan of the United States and his wife made an official visit to Britain from 7 to 9 June during which the President stayed at Windsor Castle as a guest of the Queen, addressed members of both Houses of Parliament in the Royal Gallery of the Palace of Westminster and had talks with the Prime Minister, Mrs Margaret Thatcher.

In a statement to the press on 9 June, Mrs Thatcher spoke of the great warmth with which the President had been received both by Parliament and by the people of Britain who recognised President Reagan as a leader who could demonstrate to the uncommitted nations of the world that Britain and the United States had a cause in freedom and justice that was worth striving for and worth proclaiming.

Mrs Thatcher said that she and the President had discussed matters of defence and East-West relations and had agreed that both countries could not depend upon the righteousness of their cause for security, but only upon their 'sure defence'. Nevertheless they recognised the importance of trying to get disarmament talks started so that the balance of forces and the deterrent could be maintained at a lower level of armaments. In this the President had seized the initiative and he was assured of Britain's support in the forthcoming talks on the subject (see p 190).

[1]The British Government is providing emergency assistance worth about £50,000 to the International Committee of the Red Cross and the Lebanese Red Crescent for victims of the conflict. It includes supplies of albumen, medical kits and a cash grant for the local purchase of food, medicines, bedding and other emergency supplies. The ICRC has estimated that there are 600,000 refugees in southern Lebanon.

The two leaders had also discussed events in the Middle East: both were wholly agreed on United Nations Security Council resolution 508 (see p 196) and Mrs Thatcher affirmed Britain's support for United States efforts to achieve cessation of hostilities coupled with withdrawal.

The Prime Minister concluded by thanking both President Reagan and the US Secretary of State, Mr Alexander Haig, for their staunch support over the Falkland Islands (see p 188) and their realisation that 'we must make it seen to the world over that aggression cannot pay'. Not only the British Government but the whole of the British people thanked the United States for this.

Replying to the Prime Minister, President Reagan reiterated United States support for Britain's position over the Falkland Islands and spoke of the two countries' agreement over problems in the Middle East; he also referred to the 'worthwhile meetings at the economic summit in Versailles' (see p 201) and to the need for the North Atlantic Alliance to maintain its solidarity and strength, to talk with and to urge restraint upon the Soviet Union, and to pursue realistic arms control measures.

President Reagan concluded by saying that he left Britain strengthened with the knowledge that 'the great friendship, the great alliance that has existed for so long between ... the United Kingdom and the United States, remains and is, if anything stronger, than it has ever been'.

Commonwealth Development Corporation

The annual report[1] of the Commonwealth Development Corporation (CDC), published in June, shows that the Corporation's new commitments in productive enterprises in developing countries totalled £94·7 million in 1981 bringing its total investment commitment at the end of the year to over £596 million. This was spread over more than 250 projects in 46 countries. Of the total committed, £189·3 million was for basic development, including power and water, housing finance and transport; £295·1 million for primary production and processing; and £111·5 million for industry and commerce. The CDC's investments by region are shown in the table (see below).

Established in 1948, the CDC is a statutory body which invests in the development of resources, material and human, choosing its projects principally for their development value to the country concerned. At the same time, it operates on commercial lines so as to provide a reasonable rate of return on the money invested, and is required to pay its way taking one year with another. (Since 1955, about one-third of its investments have been financed from self-generated surpluses.) The CDC's main source of funds is exchequer advances, which are allocated from the aid programme. Since 1969 it has been empowered to operate in non-Commonwealth as well as Commonwealth countries. At present the total is 53 countries, of which 14 are outside the Commonwealth.

[1]*Commonwealth Development Corporation: Report and Accounts 1981*. HMSO, £4. ISBN 0 903799 14 6.

Government Review

In December 1981 the Government endorsed the conclusions of an inter-departmental review that the CDC played a valuable and distinctive role in overseas development, and in particular possessed the special skill needed for the development of natural resources. It also agreed that the CDC should be allowed to exercise greater flexibility in the allocation of future investments, though it should aim to place not less than half its new commitments in the poorer developing countries and also not less than half in renewable natural resources projects. To enable the continuation of a substantial investment programme, the Government agreed that the CDC could borrow in foreign currency up to £15 million, under government guarantee, in each of the three financial years to 1984-85 so as to supplement advances from the aid programme and its own self-generated funds arising from surpluses and disposals (see also pp 13-14).

New Commitments

New commitments in 1981 exceeded those of the previous year in both real and cash terms and covered a wide range of activities undertaken in 25 projects in 19 countries. Major commitments in the renewable natural resources area included a £13·5 million loan, plus 50 per cent of the equity, in a cocoa and rubber plantation project in Papua New Guinea, a £10 million loan to assist smallholders in Thailand to replace ageing rubber trees; and a £6·2 million loan for the processing of oil palms by co-operatives in Honduras. In Jamaica, a loan of £3·6 million was committed in support of a coffee growing expansion scheme, principally for export, while other agricultural projects included commitments for the production of beef cattle in Malaysia, rubber in Ivory Coast, and wheat and maize, wattle and pine in Tanzania. An important industrial commitment was a loan of £15 million for copper extraction in Zambia,

CDC Investments and Outstanding Commitments by Region at end-1981

£ thousand

Region	Invested	Outstanding commitment
Caribbean	51,507	32,936
Asia	81,301	26,791
Pacific Islands	41,970	32,305
East Africa	68,986	29,758
Central Africa	76,989	25,324
Southern Africa	55,329	7,189
West Africa	30,273	32,173
Other areas	3,146	—
Total	409,501	186,476

bringing total CDC commitments to the project to £22·5 million. Smaller commitments were made for flour milling in Jamaica, a business hotel in Belize, a factory construction company in Thailand and a rural development finance company in Sudan. The purchase of shares (17·5 per cent of the total) in an industrial development company in Bangladesh represented the CDC's first investment in that country. In the public utilities sector the principal commitments were loans of £6 million towards the cost of a water supply project for San José, the capital of Costa Rica; of £5 million for an electricity expansion programme in Barbados; and of £3·6 million for a hydro-electric project in Swaziland. Electric power projects were also supported in Fiji and Tanzania.

Investment Priorities

Through its investments the CDC's principal aim is to provide people with opportunities to secure the basic necessities: food, shelter and paid jobs or income from self-employment. This was reflected in the pattern of new commitments, particularly the priority given to natural resources projects which produce foodstuffs for local consumption or cash crops to earn foreign exchange, while at the same time providing a living in the rural areas where generally those most in need are to be found. Other priorities included industrial enterprises manufacturing goods previously imported, thus saving foreign exchange, and providing employment in the urban areas; projects which harnessed indigenous sources of energy such as water and geothermal steam as alternatives to imported fuel oil; and housing, one of the most pressing needs of those on low incomes.

Local Ownership

In continuation of its policy to bring local interests into the ownership of its enterprises once these have become firmly established, the CDC negotiated the transfer to the Swazi Nation of two major undertakings, the Swaziland Irrigation Scheme, embracing sugar-cane, citrus and cattle-rearing projects, and Vuvulane Irrigated Farms, a large sugar-cane smallholders scheme. The CDC will continue to manage the schemes, however. Other disposals included the sale of CDC holdings in a mortgage finance company in Trinidad and Tobago, in a rubber plantation in Nigeria and in a flour milling and baking group in Kenya, while negotiations are in progress regarding the purchase by local governments of CDC's holdings in electricity companies in Dominica, Grenada, and St Vincent and the Grenadines. Terms have also been agreed to the sale to the St Lucia Government of CDC's shares in the St Lucia Mortgage Finance Company.

Training

Training of nationals in CDC-managed projects was intensified during 1981, with particular success in the Eastern Caribbean electricity undertakings. This was achieved by a combination of training on the job, seminars held centrally for managers and supervisors, and external courses for technical and professional posts. With one exception, the entire management and technical staff of the five electricity undertakings is now West Indian. Elsewhere, steady progress has been made, enabling expatriate staff to be replaced by nationals and deployed in new projects in areas where suitably qualified nationals are not yet available. The CDC's own training college in Swaziland, Mananga Agricultural Management Centre, had another successful year and well over 1,000 managers from 39 countries have undertaken courses there since it was started in 1973.

The Crown Agents

Information about the work of the Crown Agents for Oversea Governments and Administrations in 1981 is contained in the Chairman's Review and Accounts published in May.[1] The report of the Tribunal of Inquiry into certain of the Crown Agents' financial operations on their 'own account' between 1967 and 1974 has also been published.[2]

The Agents, a statutory corporation, provide financial, professional and commercial services for almost 100 governments and over 300 public authorities and international bodies. These include procurement and engineering, money management and investment, recruitment of staff and other personnel services, consultancy and training services, shipping and insurance, negotiating contracts for the production and supply of currency and stamps and their sales for collectors, and help in administering Britain's bilateral aid to developing countries.

Chairman's Review

Examples of services in 1981 included the supply of telephone and telex exchanges, airfield navigational and other electrical and telecommunications equipment; the provision of a range of craft and vehicles from refrigerated fish-carrier vessels to fire appliances, heavy transporters and agricultural tractors; the shipping of railway equipment and spares, in particular completion of the supply of 937 wagons ordered by Bangladesh railways; and preparation of specification and tender documents for a drilling rig for geothermal exploration in Kenya. New buildings were provided for the Italian earthquake relief in the townships of Serino and Solofra; the Agents were also concerned with the distribution of relief supplies to Afghan refugees in Pakistan. Work started on the construction of two tea factories in Nepal, including the supply and installation of machinery, while contracts were placed for the supply of Bailey bridges to Sri Lanka and Uganda and a fire-station building for Belize airport. The Ijebu Igbo water supply

[1]Available free from the Crown Agents, 4 Millbank, London SW1P 3JD.

[2]*Report of the Tribunal appointed to inquire into certain issues arising out of the operations of the Crown Agents as financiers on own account in the years 1967-74.* HMSO, £16·35. ISBN 0 10 414982 5.

scheme, designed and constructed by the Crown Agents, was officially commissioned and the Agents were invited to submit proposals for similar projects elsewhere in Nigeria.

The year was a successful one for the Agents' philatelic operations, their most notable service being the origination and co-ordination of a 22-country omnibus issue of commemorative stamps celebrating the marriage in 1981 of the Prince of Wales to Lady Diana Spencer.

The Agents are actively involved in Britain's bilateral aid programme and in 1981 administered 214 loans and grants totalling £1,940 million on behalf of the Overseas Development Administration of the Foreign and Commonwealth Office. A new office was opened in Zimbabwe to assist with aid management.

Investment funds handled for clients in international financial markets amounted to £3,410 million.

Tribunal of Inquiry

The Tribunal was appointed in 1978 to inquire into the operations of the Crown Agents as financiers on their 'own account' during the years between 1967 and 1974. It also examined the relationship between the Agents and outside bodies which had some responsibility for supervising their activities, principally the then Ministry of Overseas Development (now the Overseas Development Administration), the Treasury and the Bank of England. The Tribunal's Chairman was Sir David Powell Croom-Johnson, a High Court Judge.

The Tribunal's report identified a number of serious shortcomings that existed during the period under review, both with respect to the conduct of individuals and in relation to the operation of institutions and procedures involved in supervising the Agents. In so doing, however, the Tribunal emphasised that its findings related only to the Agents' own account activities. Throughout the period reviewed, their 'traditional agency business of procurement and managing investment portfolios for Principals [that is, clients] proceeded satisfactorily. This business was, and is, valuable and has not been criticised.'

The Tribunal also pointed out that its report dealt with the past and that no new own account business had been undertaken since 1974. In addition, the ambiguities of the Crown Agents' former status and their lack of accountability had been removed by the Crown Agents Act of 1979. This had given the Agents a clear legal status as an incorporated body, defined their functions and powers, and set out those of the Minister of Overseas Development with respect to the Agents (see pp 48-9, 1979).

In a parliamentary reply on 26 May (*Hansard*, Vol 24, No 124, written answers, cols 305-6), the Prime Minister, Mrs Margaret Thatcher, announced that the Government would look closely at the criticisms made by the Tribunal, and in particular at those of the institutions and procedures examined by the Tribunal to see whether the changes made since 1974 were sufficient to prevent the risk of repetition, and, if not, what action needed to be taken.

ECONOMIC AND SCIENTIFIC AFFAIRS

Versailles Economic Summit

The need for increased economic growth and employment, a reduction in inflation and interest rates and greater stability in exchange rates was stressed at the economic summit, attended by leaders of seven of the major industrial countries, at Versailles, France, from 4 to 6 June. The participants also reaffirmed their commitment to an open international trading system and their opposition to protectionist pressures.

In the course of their meeting the heads of State and Government of Britain, Canada, France, the Federal Republic of Germany, Italy, Japan and the United States, together with representatives of the European Community, deepened their mutual understanding of the gravity of the world economic situation and agreed on a number of objectives for urgent action to improve it.

The leaders affirmed that the improvement in the economic situation by means of a further reduction in inflation and by a return to steady growth and higher levels of employment would strengthen the joint capacity of their countries to safeguard their security, to maintain confidence in their shared democratic values and to preserve the diverse cultural heritage of their peoples. Price stability, combined with full employment and balanced growth, represented an ambitious objective, attainable in the coming years only if policies which encouraged productive investment and technological progress were pursued. It was necessary for countries to supplement their individual efforts by joining forces to promote world development.

The Prime Minister, Mrs Margaret Thatcher, discussing the summit in the House of Commons on 8 June (*Hansard,* Vol 25, No 127, cols 22-31), said that it had been 'notable for two characteristics – a strong sense of continuity and an encouraging measure of solidarity about our approach to the major issues of the future. We shall be successful in dealing with those issues only if we pursue sustained and co-operative policies. The meeting at Versailles made a significant contribution to that goal.' The summit was united on economic, employment and political policies and it augured well 'for the future of those three matters that we intend to carry out those agreements and to have more and more co-operation between us'.

The declaration issued at the end of the summit proposed action in the following areas: growth and employment, world trade, economic relations with Eastern Europe, energy conservation, relations with developing countries, scientific and technological collaboration and the international monetary system.

Growth and Employment

Growth and employment had to be increased, the declaration stated. This would be attained on a durable basis 'only if we are successful in our continuing fight against inflation'. A rise in growth and employment would also help to bring down interest rates, 'which are now unacceptably high', and to increase the stability of exchange rates. However, economic and monetary co-operation would need to be intensified if greater control over budgetary deficits were to be achieved. In this regard the seven countries would work towards a constructive and orderly evolution of the international monetary system by closer co-operation between the authorities representing the currencies of North America, Japan and the European Community in the pursuit of medium-term economic and monetary objectives.

World Trade

The growth of world trade was 'both a necessary element for the growth of each country and a consequence of that growth'. The leaders reaffirmed their commitment to strengthening the open multilateral trading system as embodied in the General Agreement on Tariffs and Trade (GATT) and to maintaining its effective operation. In order to promote stability and employment through trade and growth, the seven countries would resist protectionist pressures and trade-distorting practices. The leaders were resolved to complete the work of the Tokyo Round of tariff reductions (see pp 156-9, 1979) and to improve the capacity of the GATT to solve current and future trade problems. Their countries would co-operate with the developing countries to strengthen and improve the multilateral trading system and to expand trading opportunities with the newly industrialised countries in particular. They would participate fully in the forthcoming GATT ministerial conference 'in order to take concrete steps towards these ends' and would also work for early agreement on the renewal of export credits within the Organisation for Economic Co-operation and Development (OECD).

Economic Relations with Eastern Europe

The participants expressed their agreement to pursue 'a prudent and diversified economic approach', consistent with their political and security interests, to the Soviet Union and the rest of Eastern Europe. This included action in three key areas. First, following international discussions in January, representatives of the seven countries would work together to improve both the international system for controlling exports of strategic goods to this group of countries and the national arrangements for the enforcement of security controls. Secondly, the seven countries would exchange information in the OECD on all aspects of their economic, commercial and financial relations with the Soviet Union and the rest of Eastern Europe. Thirdly, taking into account existing economic and financial considerations, they had agreed to handle cautiously financial relations with these countries in such a way as to ensure their conduct on a sound economic basis. The need for commercial prudence in limiting export credits would be observed and the development of economic and financial relations would be subject to periodic review.

Energy Conservation

Progress that had already been made did not diminish the need for continuing efforts to economise on energy, particularly through the price mechanism, and to promote alternative sources including nuclear energy and coal. These efforts would enable the countries to continue to reduce their long-term vulnerability to interruptions in the supply of energy and to price instability. Co-operation to develop new energy technologies and to strengthen the capacity of these countries to deal with disruptions could contribute to their common energy security. They would also work to strengthen co-operation with both oil-exporting and oil-importing developing countries.

Relations with Developing Countries

The growth of the developing countries and the deepening of a constructive relationship with them, the statement went on, were 'vital for the political and economic well-being of the whole world'. It was therefore important that a high level of financial flows and official assistance should be maintained and that their amount and effectiveness should be increased as far as possible, with responsibilities shared broadly among all countries capable of making a contribution. The launching of global negotiations (see pp 292-3, 1980) was a major political objective which all the participants in the summit approved. The latest draft resolution circulated by the Group of 77[1] was helpful and the summit showed general acceptance of the view that it would serve as a basis for consultations with the countries concerned. The leaders believed that there was 'now a good prospect for the early launching and success of the global negotiations provided that the independence of the specialised agencies is guaranteed', and went on to express a readiness to continue and develop practical co-operation with the developing countries through innovations within the World Bank, through progress in countering instability of commodity export earnings, through the encouragement of private capital flows (including international arrangements to improve the conditions for private investment) and through a further concentration of official assistance on the poorer countries. (For Britain's aid, see pp 64-6.) It was for this reason that the participants saw a need for special temporary arrangements to overcome the funding problems of the International Development Association. They would give special encouragement to programmes or arrangements designed to increase food and energy production in developing countries which needed to import these essentials and to programmes to address the implications of population growth.

[1]The name given to a group of developing countries, now about 120, which act together to put forward policies on development.

Scientific and Technological Collaboration

Revitalisation and growth of the world economy would depend not only on the efforts of the seven countries but also, to a large extent, on co-operation between these and other countries in the exploitation of scientific and technological development. It was necessary to exploit the immense opportunities presented by the new technologies, particularly for creating new employment. There was a need to foster the development of, and trade in, new technologies in both the public and private sectors. The seven countries would need to train people in the new technologies and to create the economic, social and cultural conditions which allowed these technologies to develop and flourish. The participants had considered the report presented to them on these issues by President Mitterrand of France and had decided to set up promptly a working group of representatives of their governments and of the European Community to develop, in close consultation with the appropriate international institutions, especially the OECD, proposals to help to attain these objectives. The group would be asked to report by the end of 1982. The conclusion of the report and the resulting action would be considered at the next economic summit, to be held in 1983 in the United States.

The International Monetary System

The participants were looking forward to progress at the annual meeting of the International Monetary Fund (IMF) in September towards expanding the IMF in line with the forthcoming eighth review of quotas.

The leaders accepted joint responsibility to work for increased stability of the international monetary system. They also recognised that this rested primarily on convergence of policies designed to achieve lower inflation, higher employment and renewed economic growth, thus maintaining the internal and external values of their currencies. They were determined to discharge this obligation in close collaboration with all interested countries and monetary institutions. Major importance was attached to the role of the IMF as a monetary authority and it would receive

full support in its efforts to foster stability.

The leaders expressed their readiness to strengthen co-operation with the IMF in its surveillance. This would be developed on a multilateral basis, taking particular account of the five currencies used to determine the value of Special Drawing Rights.[1]

Although they ruled out the use of exchange rates to gain unfair competitive advantages, the participants were ready, if necessary, to intervene in exchange markets to counter disorderly conditions as provided for by the IMF.

Leaders representing member countries which participated fully in the European Monetary System (France, the Federal Republic of Germany and Italy – see pp 415-18, 1978) regarded these undertakings as complementary to the obligations of stability already undertaken in that framework.

The leaders were all convinced that greater monetary stability would assist freer flows of goods, services and capital. They were determined to see that greater monetary stability and freer flows of trade and capital reinforced one another in the interest of economic growth and employment.

Overseas Direct Investment

Estimates of net outward direct investment by British companies in 1981 show an increase of nearly one-half since 1980, to £5,200 million, while net inward direct investment in British companies amounted to £800 million. Net earnings on Britain's direct investment holdings overseas were £3,600 million and on direct foreign investment holdings in Britain £2,100 million. More detailed figures for 1980 show that Britain's net direct investment overseas amounted to £3,500 million, exceeding net inward direct investment by over £900 million. However, inward investment increased more rapidly during the year.

These findings are taken from the Department of Trade's inquiry into the annual flows of British direct investment overseas and inward direct investment in Britain, published in the 14 May issue of *British business*. Direct investment means here the acquisition of a lasting interest in an overseas enterprise, giving the investor an effective voice in its management. (Investment in company securities – portfolio investment – in contrast, does not give the investor an effective voice in management.) Net investment is often far less than gross investment as borrowing by direct investors from their overseas affiliates has to be deducted to give a net figure. Oil companies are excluded from the inquiry. For 1981, only provisional figures for total net flows and earnings are so far available; this article deals with the more detailed analysis for 1980.

[1]The United States dollar, the deutschemark, the yen, the French franc and the pound sterling.

Outward Net Direct Investment

Net overseas direct investment by British companies amounted to nearly £3,500 million in 1980 (see Table 1), 25 per cent more than in 1979 and over six times the 1970 level. Although this partly reflects inflation, there was also a considerable real increase in investment in new overseas concerns. Net investment would have been even higher were it not for substantial borrowing by British companies from their overseas affiliates. Direct investment in 1980 was affected by the sharp increase in the exchange rate of the pound, which reduced the sterling value of the profits of overseas affiliates and was a major reason why the figures for unremitted profits (used to finance investment in the overseas companies) were depressed. However, the rise in the exchange rate probably contributed to an increase in the other main components of investment as the reduction in the cost of foreign currency made overseas direct investment more attractive.

The fact that 1980 was the first full year without exchange controls (see pp 338–9, 1979) is thought unlikely to have had any major effect on direct investment. It is probable that a little more direct investment was financed by sterling than previously, but the main methods continued to be those used during the period of exchange controls when virtually all overseas direct investment had to be financed out of unremitted profits or by borrowing in foreign currency. (The advantage of borrowing in foreign currency is that it enables companies to match the currency of their liabilities with that of their assets and so reduce their exposure to risk in the event of a fall in sterling.)

The United States was by far the most important market for outward net direct investment by Britain in 1980, receiving 51 per cent of the total, compared with 14 per cent for the European Community and 20 per cent for the Commonwealth (see Table 2). The developing countries received 18 per cent and the oil-exporting countries 3 per cent. The Federal Republic of Germany was the most important market within the Community, attracting well over three times the amount of France, which was in second place. (In 1979, however, the Federal Republic had been one of the least important markets in the Community.) Net investment in the Netherlands is frequently negative because of large borrowings by British companies from their Dutch affiliates, which have been set up for tax reasons to raise finance for their parent companies. Net investment in the Netherlands in 1980 was −£168 million but, were it not for borrowing from affiliates, would have been positive by about the same amount.

Net Earnings from Outward Direct Investment

Net earnings from outward direct investment by British companies in 1980 amounted to a little over £2,900 million (see Table 1). Although this was over four times as high as in 1970 it was only 4 per cent more than in 1979. The slow growth in 1980 was largely due to depressed

Table 1

Net Direct Overseas Investment and Earnings

£ million

	1976	1977	1978	1979	1980	1981*
Outward direct investment overseas						
Net investment	2,145	1,885	2,740	2,788	3,492	5,218
Net earnings	2,383	2,293	2,347	2,815	2,914	3,637
Inward direct investment in Britain						
Net investment	799	1,326	1,292	1,818	2,576	839
Net earnings	1,040	1,432	1,527	2,149	1,982	2,097

*Provisional.

Table 2

Net Outward Direct Investment Overseas Analysed by Area

£ million

	1976	1977	1978	1979	1980
Western Europe	**688·8**	**569·2**	**855·3**	**130·0**	**599·5**
European Community	496·5	381·6	579·2	28·4	482·1
Belgium and Luxembourg	84·9	69·8	36·7	32·0	18·6
Denmark	4·7	12·8	15·1	1·9	22·5
France	78·6	98·0	68·8	82·0	109·1
Federal Republic of Germany	176·4	154·4	112·5	22·3	376·1
Irish Republic	40·0	59·4	169·1	63·1	92·7
Italy	38·6	42·5	47·2	50·0	31·5
Netherlands	73·3	–55·2	129·6	–223·0	–168·3
European Free Trade Area*	150·6	149·9	216·4	70·7	75·9
Austria	23·1	29·8	17·8	0·5	–6·1
Finland	2·0	1·2	*na*	9·5	2·0
Norway	–0·7	4·6	2·7	*na*	*na*
Portugal	1·3	8·4	5·8	11·0	11·4
Sweden	25·1	35·6	13·3	18·7	1·1
Switzerland	99·7	70·2	172·8	26·3	72·8
Other Western Europe	41·7	37·7	59·7	31·0	41·5
North America	**592·5**	**582·7**	**1,107·2**	**1,800·8**	**1,895·8**
Canada	215·0	129·3	138·1	203·6	111·5
United States	377·5	453·4	969·0	1,597·2	1,784·2
Other developed countries	**416·3**	**333·6**	**318·2**	**261·5**	**424·3**
Australia	178·5	194·7	171·4	199·9	163·0
Japan	0·7	17·0	33·4	30·1	8·5
New Zealand	28·7	15·4	27·8	21·8	34·3
South Africa	208·4	106·6	85·5	9·8	218·4
Rest of the world	**447·2**	**399·3**	**459·3**	**596·0**	**572·1**
Africa	131·2	250·0	136·9	139·4	158·5
Middle East	23·8	18·9	67·1	46·7	22·9
Other Asia	110·0	162·0	30·3	120·2	126·0
Caribbean, Central and South America	182·4	–48·2	214·6	290·8	261·3
Other	–0·2	16·6	10·4	–1·2	3·5
World	**2,144·8**	**1,884·8**	**2,740·0**	**2,788·3**	**3,491·6**
Commonwealth	725·2	489·9	632·3	824·5	684·6
Developing countries	488·9	437·0	518·9	626·8	613·5
Oil-exporting countries†	107·0	177·4	154·5	69·2	96·7

*Including Iceland.
†Indonesia, Iran, Iraq, Gulf states, Libya, Saudi Arabia, Nigeria, Venezuela, and Trinidad and Tobago.
na = not available.

Table 3

Net Earnings from Outward Direct Investment Overseas Analysed by Area

£ million

	1976	1977	1978	1979	1980
Western Europe	**592·3**	**535·0**	**602·4**	**652·3**	**543·1**
European Community	437·3	375·0	447·6	508·9	391·8
Belgium and Luxembourg	64·2	64·1	67·7	56·2	44·8
Denmark	12·4	11·6	16·1	10·9	14·5
France	48·7	30·7	40·9	73·5	61·9
Federal Republic of Germany	146·5	122·0	154·0	169·3	132·3
Irish Republic	59·0	64·6	86·0	96·4	81·7
Italy	29·3	29·2	40·4	44·6	46·1
Netherlands	77·1	52·7	42·6	57·9	10·6
European Free Trade Area*	121·5	133·1	136·0	117·2	122·0
Austria	23·7	27·3	27·0	10·7	10·9
Finland	4·1	3·4	5·1	7·0	4·9
Norway	3·3	3·8	3·4	*na*	*na*
Portugal	3·0	9·1	*na*	13·4	16·6
Sweden	13·8	14·3	13·0	13·7	17·7
Switzerland	73·5	75·1	81·2	68·7	69·4
Other Western Europe	33·5	27·0	18·8	26·2	29·3
North America	**491·4**	**515·2**	**600·5**	**756·8**	**755·1**
Canada	170·8	155·8	161·2	199·6	188·5
United States	320·7	359·5	439·3	557·2	566·6
Other developed countries	**583·3**	**509·5**	**521·3**	**663·4**	**749·3**
Australia	268·6	234·2	226·2	259·2	272·6
Japan	6·8	21·4	30·4	37·2	20·9
New Zealand	41·5	29·6	33·4	32·2	32·7
South Africa	266·3	224·4	231·4	334·7	423·1
Rest of the world	**716·4**	**733·2**	**622·3**	**742·7**	**866·8**
Africa	193·9	207·9	183·8	203·6	261·8
Middle East	66·3	70·2	55·4	70·1	60·8
Other Asia	231·8	265·3	220·2	285·5	310·6
Caribbean, Central and South America	180·5	145·1	143·5	170·5	220·5
Other	43·9	44·6	19·3	13·0	13·1
World	**2,383·4**	**2,293·0**	**2,346·5**	**2,815·2**	**2,914·3**
Commonwealth	974·7	912·7	838·3	979·0	1,077·2
Developing countries	749·8	760·2	640·8	768·6	895·9
Oil-exporting countries†	176·4	194·7	145·4	156·3	160·5

*Including Iceland.
†Indonesia, Iran, Iraq, Gulf states, Libya, Saudi Arabia, Nigeria, Venezuela, and Trinidad and Tobago.
na=not available.

overseas markets and the fact that the rise in the exchange rate for the pound reduced the sterling value.

The United States accounted for 19 per cent of net earnings in 1980 (see Table 3). Earnings from the United States have risen rapidly in recent years, reflecting the increase in British investment in that country. The European Community accounted for 13 per cent (with the Federal Republic of Germany again predominant), the Commonwealth for 37 per cent, the developing countries for 31 per cent and the oil-exporting countries for 6 per cent.

Inward Net Direct Investment

Up to 1980 net direct investment in Britain by overseas companies rose more rapidly than outward investment. It increased by 42 per cent in 1980 to reach nearly £2,600 million (see Table 1).

The United States was the source of 65 per cent of net direct investment in Britain in 1980 (see Table 4), the amount of such investment having risen by 69 per cent since 1979. There was substantial investment by United States companies in British insurance brokers and other financial institutions in 1980 and an increase in the relative importance of the non-manufacturing sector as a whole as a destination for funds. The European Community accounted for only £153 million in 1980, 6 per cent of the total and less in absolute terms than in any of the previous four years. This was the result of a fall in retained profits which, in turn, was caused by substantial losses by manufacturing affiliates in Britain.

Table 4

Net Inward Direct Investment in Britain Analysed by Area

£ million

	1976	1977	1978	1979	1980
Western Europe	**254·7**	**439·3**	**434·2**	**525·0**	**385·2**
European Community	176·5	267·2	309·9	267·4	153·4
Belgium and Luxembourg	21·9	46·4	42·0	24·3	15·2
Denmark	18·5	–0·2	15·1	33·3	13·2
France	84·8	89·2	155·2	49·4	48·1
Federal Republic of Germany	33·9	37·5	69·3	67·2	34·1
Irish Republic	37·0	23·9	23·1	2·1	23·9
Italy	11·1	12·9	–3·7	6·2	–16·2
Netherlands	–30·7	57·5	8·9	84·9	35·2
European Free Trade Area	81·6	169·7	122·1	252·2	226·1
Austria	–0·6	3·9	–2·0	3·4	–1·0
Finland	8·8	12·0	23·9	24·3	3·3
Norway	11·5	–1·5	–3·3	15·1	23·8
Portugal	0·4	0·5	0·5	2·1	1·6
Sweden	37·5	53·1	0·9	39·1	72·3
Switzerland	24·0	101·6	102·1	167·8	126·0
Other Western Europe	–3·5	2·3	2·2	5·4	5·7
North America	**502·5**	**694·7**	**844·4**	**1,113·6**	**1,759·8**
Canada	–47·4	59·0	37·3	121·7	81·4
United States	549·9	635·7	807·1	991·9	1,678·4
Other developed countries	**–2·5**	**154·7**	**7·8**	**58·0**	**204·1**
Australia	22·7	12·6	–5·7	66·7	74·3
Japan	–15·7	98·9	–19·7	45·0	37·5
New Zealand	3·5	0·3	4·1	4·9	–3·6
South Africa	–13·0	42·9	29·1	–58·7	95·9
Rest of the world	**44·2**	**37·4**	**5·8**	**121·8**	**227·2**
Asia	10·6	7·8	23·8	65·5	37·4
Caribbean, Central and South America	19·6	27·9	–15·7	5·1	199·4
Other	14·0	1·7	–2·4	51·2	–9·8
World	**798·9**	**1,326·0**	**1,292·1**	**1,818·3**	**2,576·2**

Table 5

Net Earnings from Inward Direct Investment in Britain Analysed by Area

£ million

	1976	1977	1978	1979	1980
Western Europe	**224·9**	**320·4**	**355·2**	**437·4**	**207·7**
European Community	136·4	200·5	231·5	266·2	131·1
Belgium and Luxembourg	28·7	40·5	55·8	30·8	32·7
Denmark	12·7	11·0	5·8	19·3	15·5
France	35·8	57·2	67·4	75·3	52·0
Federal Republic of Germany	24·9	33·5	56·6	63·5	19·6
Irish Republic	14·6	15·2	21·3	20·0	12·5
Italy	10·9	1·3	–6·2	–3·1	–20·5
Netherlands	8·7	41·7	30·7	60·5	19·4
European Free Trade Area	87·9	117·9	121·2	165·8	71·8
Austria	0·2	1·3	2·9	1·7	0·8
Finland	1·3	1·9	2·9	6·3	4·1
Norway	3·1	–5·4	–6·0	1·0	11·8
Portugal	0·6	0·8	0·8	2·4	1·0
Sweden	15·2	34·4	25·5	31·6	20·8
Switzerland	67·5	84·7	95·0	122·3	33·3
Other Western Europe	0·5	2·0	2·5	5·4	4·8

Table 5 continued on next page

Table 5 continued

£ million

	1976	1977	1978	1979	1980
North America	**718·2**	**1,044·6**	**1,144·1**	**1,568·2**	**1,497·4**
Canada	6·8	108·1	116·6	130·7	89·4
United States	711·4	936·5	1,027·5	1,437·5	1,408·1
Other developed countries	**61·5**	**53·6**	**64·4**	**101·4**	**187·5**
Australia	14·5	17·8	14·7	25·7	52·4
Japan	36·9	22·6	27·2	39·5	102·9
New Zealand	0·9	1·8	2·1	0·4	1·8
South Africa	9·2	11·5	20·4	35·8	30·4
Rest of the world	**35·5**	**13·4**	**–36·9**	**42·0**	**88·9**
Asia	23·5	20·0	7·2	28·0	31·2
Caribbean, Central and South America	6·5	–11·7	–48·8	13·6	55·6
Other	5·5	5·1	4·7	0·4	2·1
World	**1,040·1**	**1,432·0**	**1,526·7**	**2,149·1**	**1,981·5**

Net Earnings from Inward Direct Investment

Net earnings from inward direct investment in Britain in 1980 amounted to nearly £2,000 million (see Table 1). These earnings had risen rapidly since the mid-1970s, reflecting inflation and stock appreciation as well as new investment. In 1980, however, with the decline in industrial output in Britain, they fell by £168 million or 8 per cent. While earnings in manufacturing industries fell by £386 million, those in non-manufacturing rose by £218 million.

Although earnings by the United States fell slightly in 1980, the country retained its top position and increased its share of earnings from 67 per cent in 1979 to 71 per cent in 1980 (see Table 5). Earnings by the member countries of the European Community fell from £266 million in 1979 to £131 million in 1980 – largely due to losses in chemicals, motor vehicles, textiles and rubber – when they accounted for 7 per cent of the total. Over the same period Japan's earnings rose from £40 million to £103 million, mainly because of increased profits in banking and distribution.

Privatisation

The Government's progress in its policy of 'privatisation' (the return of industries, assets and activities from the public sector to the private sector) is set out in an article in the Treasury's *Economic Progress Report* for May 1982.[1] Privatisation is an important part of the Government's aim of the restoration of market forces throughout the economy. It is taking a variety of forms, including the sale to the private sector of shareholdings in former nationalised industries, the disposal of public sector shareholdings in companies and the contracting out of services previously administered by government departments and local authorities, while a number of steps are being taken to open up areas remaining in the public sector by abolishing statutory monopolies and allowing private enterprise to compete.

The article 'The public sector for the public' examines briefly the reasoning behind the Government's policies and describes the progress that is being made.

Reasons for Privatisation

The article notes that the public sector accounts for a significant part of the British economy. In 1981 about 30 per cent of Britain's gross domestic product was in the public sector (including central government, local authorities and public corporations). Improving public sector efficiency mainly involves improving scrutiny, monitoring and management within the context of existing institutions. However, the Government is convinced 'that by far the best incentive to improved use of resources comes from opening up new areas to market forces, wherever this can be done; in turn that this is best accomplished by returning industries and activities to the private sector, where managers can choose their strategy unencumbered by Government, and can make the decisions necessary to put that strategy into effect, knowing that they will reap rewards for success or carry the consequences of failure'. In addition, consumers are expected to benefit from increased choice following the extension of competition.

The article says that there are two important secondary objectives of privatisation. First, it is designed to provide a major boost to wider share ownership. Although this has been undertaken partly through the sale of shares to individual investors and pension funds, the Government has also taken the opportunity afforded by the major sales of public sector shareholdings since 1979 to extend share ownership among employees. Some 90,000 employees have taken up shares under preferential arrangements in the businesses for which they work, while the Government has sold the whole of the National Freight Company to a

[1]Available free from Publications Division, COI.

consortium of managers and employees.[1] Secondly, privatisation can help to reduce the burden on the Exchequer, both through the receipts from sales of assets and through the removal from the public sector borrowing requirement of any future borrowing by the bodies concerned.

The role of private finance was discussed by the Chief Secretary to the Treasury, Mr Leon Brittan, in a speech on 8 December 1981 (see pp 17-20).

Asset Sales

In 1979-80 (the first year of the present Government) total special disposals of assets were almost exactly in line with the Government's target of £1,000 million. In the following year the target was £500 million and the outturn (at £360 million) fell somewhat short of it. The gross total for 1981-82 was in line with the Government's target, again £500 million, and included important contributions from the sales of shares in Cable and Wireless (which realised some £182 million – see pp 344-5, 1981) and Amersham International (see pp 130-1) which brought in £64 million. For 1982-83, and for each of the two following years, the Government's published plans allow for continuing asset sales of some £600-£700 million, representing a total of about £2,000 million in these three years.

In addition, the article says a great deal of work has been done, through enabling legislation, to lay the foundations for future asset sales. Provisions have already been enacted to permit the privatisation of British Airways (see pp 382-3, 1979), the British Transport Docks Board (see pp 52-3, 1981) and the disposal of subsidiaries of British Rail (see p 52, 1981) and British Telecom, while legislation is before Parliament for further privatisation measures.

Progress in Different Parts of the Public Sector

Government Departments

Government departments and agencies have passed over a number of functions to the private sector. For example, motorway service areas have been sold (see p 348, 1979), the Hydraulics Research Station is being transferred to private ownership (see p 278, 1981) and a trading fund is to be created for the Ordnance Survey as a possible preliminary to greater private sector involvement.

In the field of contracting out, departments are being encouraged to identify services which could appropriately be provided by private enterprise, while meeting the requirements of sound management and good value for money to the public. One example is the assumption by private firms of responsibility for the preparatory work on new trunk roads and motorways.

Within the National Health Service, cleaning, laundry and catering services are being contracted out. The development of private hospitals and private health arrangements has been encouraged, for example by tax concessions for private health insurance (now held by nearly 4 million people).

Local Authorities

Local authorities are being encouraged to consider contracting out services as a means of reducing costs to their ratepayers while maintaining their standards. The Government has been helping by providing information; it has published a report on pricing and service delivery arrangements covering a wide range of local environmental services. Local authorities are increasing their experience of contracting out. Some, such as Southend, Eastbourne and Peterborough, have already contracted out their refuse disposal services and at least 100 more are considering similar action.

Council House Sales

The Housing Act 1980 (see pp 56-8, 1980) established a statutory 'right to buy' for tenants of houses and flats owned by local authorities. About 250,000 local authority tenants in Great Britain have bought their homes since mid-1979, and another one-third of a million have applied to buy their houses and have had their right to buy acknowledged. Local authorities and new towns have benefited by some £1,300 million since 1979 and in 1982-83 are expected to receive a further £900 million.

New Towns

By the end of 1982-83 new town asset disposals (including housing) will have realised about £300 million since 1979, which has led to an extension of private ownership in the 32 new towns and given many firms the opportunity to buy their freeholds.

Transport

The Transport Act 1980 (see pp 383-5, 1979), the Transport Act 1981 (see pp 52-4, 1981) and the Transport Bill now before Parliament (see pp 84-6) have included provisions for a wide range of privatisation measures and for increased competition in the publicly owned transport sector. One result of the relaxation of restrictions on passenger road transport has been a rapid development of express coach services and reductions in fares on many routes. Certain British Rail non-railway subsidiary activities have already been sold including six hotels and a significant portfolio of non-operational property, while British Rail's hovercraft subsidiary has been merged with Hoverlloyd (its main competitor) to form a new private sector company known as Hoverspeed. The Government intends that the British Transport Docks Board should be denationalised shortly. The Transport Act 1981 already provides for shares to be sold in a holding company to be set up to control a reconstituted board, to be known as Associated British Ports, and the Government hopes to sell 49 per cent of its equity in 1982-83. Provisions are included in the Transport Bill for the introduction of private capital into the express coach and property businesses of the National Bus Company, and for the transfer of the

[1]The company now operates as the National Freight Consortium p.l.c.

testing of heavy goods vehicles and public service vehicles to the private sector.

The Civil Aviation Act 1980 (see pp 382-3, 1979) makes legislative provision for the Government's intention to change British Airways from a nationalised industry to a private sector company.

Communications

Postal and telecommunications businesses, formerly run by the Post Office, have been operated by completely separate bodies since October 1981, and both have had their statutory monopolies modified so that they are becoming increasingly subject to private sector competition.

Under the British Telecommunications Act 1981 (see pp 14-16, 1981), British Telecom was set up as a separate public corporation to run the telecommunications and data processing services formerly operated by the Post Office. British Telecom is free to operate through subsidiaries and in partnership with private sector firms, and the Government has powers to require the transfer of the corporation's activities to wholly owned subsidiary companies and to require British Telecom to dispose of them. The Secretary of State for Industry now has powers to license other bodies to run telecommunications systems and in February 1982 he announced the issue of a licence to the Mercury Consortium to run an independent telecommunications system in competition with British Telecom (see p 86). Under the Act the Secretary of State has powers to approve standards for apparatus connected to the British Telecom network and these powers are being used to open up the supply of apparatus to free competition. Private sector firms will have almost complete freedom to supply and maintain apparatus in competition with British Telecom, although the corporation will retain a monopoly on the first telephone on each direct exchange line and of certain maintenance work. The Act also provided for the disposal by the Government of its interest in Cable and Wireless, and nearly half its shareholding was sold in 1981 (see p 344, 1981).

Under the same Act the Secretary of State for Industry may now suspend the postal monopoly entirely, either in a particular area or throughout the country, and license others to provide competing letter delivery services. These provisions have been used to allow private operators to provide express mail services, charities to deliver Christmas cards, and the transfer of mail between document exchanges. Private carriers may also carry letters for part of their journey, and employees of wholly owned subsidiary companies may deliver and collect mail for their parent companies.

Industry

Privatisation in the industrial sector has included the sale of nearly 100 million shares in British Aerospace (now a public limited company, see pp 14 and 56-7, 1981), and the establishment of the British Steel Corporation's partly owned private sector subsidiary Allied Steel and Wire (see p 75, 1981) together with the sale of its construction engineering subsidiary Redpath Dorman Long Ltd to the Trafalgar House group in April 1982.

The National Enterprise Board (now operating together with the National Research Development Corporation as the British Technology Group) has been directed by the Government to concentrate on helping high technology companies, firms in the assisted areas and small businesses (see p 300, 1980). Before acquiring shares in companies or making loans, the Board must be satisfied that private sector finance is not available. Subsidiaries have to be returned to private ownership once they become viable. The Board has sold a number of its shareholdings since mid-1979 including those in Ferranti Ltd (which brought in £55·2 million), ICL (£37·2 million) and Fairey Holdings (£21·8 million).

Energy

In the Oil and Gas (Enterprise) Bill (see pp 46-7), now before Parliament, the Government is seeking powers to sell off the oil-producing interests of the British National Oil Corporation (BNOC) and some of the assets of the British Gas Corporation, and to remove part of the latter's statutory monopoly of gas supply. It is proposed that the oil exploration and production business of the BNOC should be transferred to the private sector. The Government intends, subject to parliamentary approval, to sell 51 per cent of the shares in Britoil, the new company to be established to own the BNOC's upstream assets. The Bill would allow for a further reduction in the Government's shareholding at a later date if this were considered appropriate. The Government does not intend to control Britoil or use its rights as a shareholder to intervene in commercial decisions, but will retain special rights in the company's articles of association to prevent any unacceptable change in its future control.

Powers in the Bill providing for the disposal of assets of the British Gas Corporation are to be used initially to sell off its oil-producing interests in the North Sea. The Bill would also remove the Corporation's statutory privileges in buying gas and restrict its monopoly in the supply of gas to those smaller consumers whom the Corporation has a statutory obligation to supply on request; in all other areas, including the supply of gas to large industrial and commercial consumers, the Bill would provide scope for private suppliers to compete with the Corporation. Private sector access to the Corporation's pipeline network would be made possible. The Bill would also enable the Government to require the Corporation to sell its gas appliance showrooms in response to a Monopolies and Mergers Commission report in 1980, which stated that the Corporation's gas appliance retailing monopoly was against the public interest. However, the Government is committed to ensuring that safety standards are not diminished as a result and, accordingly, further legislation will be required in due course.

The private generation and sale of electricity as a secondary business already make an important contribution to electricity supply, particularly to industry. The Government is planning legislation to allow this activity to be carried out as a main business.

Enterprise Zones

With the opening of the enterprise zone on the Isle of Dogs in London's Docklands in May 1982, all 11 enterprise zones are now in operation. The zones are part of a new approach to tackling the problems of urban decay and represent a shift of emphasis towards private investment – encouraged by fiscal incentives and the removal of restrictions – as a means of achieving a prosperous economy.

The Chancellor of the Exchequer, Sir Geoffrey Howe, formally opened the Isle of Dogs enterprise zone on 21 May. Part of the area covered by the London Docklands Development Corporation, it is the last of the 11 enterprise zones to be designated since June 1981. The other ten are in Corby, Dudley, Hartlepool, Newcastle/Gateshead, Salford/Trafford, Speke (Liverpool), Sheffield, Swansea, Clydebank (Scotland) and Belfast.

Referring to the latest fall in inflation (the annual rate in April stood at 9·4 per cent), Sir Geoffrey said: 'Success against inflation . . . is one step . . . towards success in the fight against unemployment . . . . But . . . it isn't enough to be winning against inflation. We need other policies to bring life back into the economy, to improve the prospect for more jobs. And enterprise zones are just one of those policies.'

Recalling the occasion when he first put forward the enterprise zone policy at a meeting on the Isle of Dogs in 1978, the Chancellor explained how he took his theme from what he saw around him: 'Like so many areas near the centre of great cities, the signs of decay were all too clear – derelict land, unused warehouses and factories, dilapidated houses. A crippling blight had settled over the areas which had once been the engine-room of Britain's prosperity. Governments had for half a century sought to tackle these problems through plans, programmes and agencies, all with two things in common: the extravagant use of public money, and failure to reverse the decline. The dreams of modern inner cities had turned into nightmares born of bureaucratic indecision and lack of direction. . . . The economic heart of inner-city communities had been torn out by well-meaning but ill-fated public intervention.' What he had suggested was 'a radically different approach which looked not to public intervention but to private enterprise to provide the mainspring of local economies. Our once flourishing inner cities had been founded on the dynamism of individuals, their initiative and healthy pursuit of wealth.' Many of the areas had real advantages, such as proximity to other, thriving commercial centres or to rivers which had been great harbours; much of the land was already cleared, although dereliction was itself an opportunity; and the areas still housed communities with a sense of civic pride but in need of jobs.

The approach to enterprise zones, Sir Geoffrey pointed out, had to be wholly different. 'We had to establish a presumption in favour of something new. We had to free entrepreneurs from interfering regulations. We had to make land available for development. We had to encourage developers to build new factories. And we had to attract people with enterprise and initiative to generate new wealth and new jobs.' To get land released the burden of development land tax had been removed entirely. To encourage developers to build factories and workshops there was a 100 per cent tax allowance on commercial and industrial buildings. The burden of rates (local property taxes) had been lifted, a particularly attractive feature to entrepreneurs at a time of rapidly rising inner-city rates. Customs and Excise processing had been speeded up, and the training levy had been abolished. A simplified planning regime had been introduced favouring new development and disposing of bureaucratic restrictions on what could be built where.

The private sector, the Chancellor said, had already responded enthusiastically. In Clydebank more than 100 firms, 40 of them entirely new ventures, with potential for 1,200 new jobs were setting up or expanding. In Swansea 47 firms had moved into or set up in the zone, including seven new ventures. In Corby nearly half the land was already committed and the supply of factories was barely keeping pace with demand. Sir Geoffrey pointed out that Britain's initiative in creating enterprise zones was 'being followed with intense interest in other countries where public sector intervention has similarly failed to overcome chronic economic decline. In March President Reagan announced plans for up to 25 enterprise zones in each of the next three years. There are differences of detail between the packages. But the basic thinking is the same. . . . We too plan to learn from our experience with enterprise zones. . . . I have in mind not only the possible creation of more enterprise zones; I also believe that we may identify principles that apply to the economy as a whole.'

'The quality of enterprise', the Chancellor concluded, 'is fundamental to economic success. And economic success is the foundation of the good society. I believe that enterprise zones, which foster the freedom and vigour of enterprise, provide one key to economic success.'

[A COI reference paper on *Britain's Enterprise Zones and Urban Development Corporations* is in preparation.]

Aid for Industrial Innovation

The Government has given further details of schemes to provide aid for industrial innovation which were announced in the 1982 Budget. They are a scheme to promote automation in manufacturing (the Flexible Manufacturing Systems Scheme) and extended manufacturing and design advisory services.

An outline of the industrial innovation measures announced in the Budget was given by the Department of Industry on 10 March (see p 132).

Flexible Manufacturing Systems Scheme

The Government is allocating some £60 million for the Flexible Manufacturing Systems Scheme, which has been established to help companies to appraise the relevance of such systems to their own operations, and to help with the costs of installation. The funds will be available over the period to 1985-86 and include £35 million under the Industry Act 1972, to provide 50 per cent grants for consultancy studies and up to 33½ per cent grants towards the costs of development and of all necessary new capital equipment associated with installing a new flexible manufacturing system (FMS) or re-configuring existing equipment to permit integrated flexible manufacturing; and £25 million under the Science and Technology Act 1965, where the emphasis will be on research and development and high-risk projects in the FMS field. Existing government support for industrial robots will also come under the general umbrella of the new scheme.

An FMS is a comprehensive manufacturing system for batch work in which a central on-line computer controls automatically the machine tools and other work-stations, and the transfer of components and tooling; in addition, it provides complete monitoring and control information. FMSs thus make full automation possible, even when producing small numbers of a wide range of products, and also lower costs and improve quality. It is estimated that at least 70 per cent of the output of the engineering industry in Britain involves batch production. At one end of the scale, the FMS scheme caters for a small group of machine tools linked by some automated handling, while at the other end it could assist the establishment of a whole factory using flexible manufacturing processes. The scheme is selective and the Department of Industry will consider only projects with innovatory features, which apply flexible manufacturing to goods for which there is a market and where benefits to the company concerned can be demonstrated to the Department's satisfaction.

The details of the scheme were published in a Department of Industry press notice on 8 June.

Manufacturing Advisory Service Extended

The Government has extended the Manufacturing Advisory Service, a scheme managed on behalf of the Department of Industry by the production engineering research and consultancy organisation, PERA, under which subsidised consultancy services have been made available to small and medium-sized firms in the engineering sector. In the four years from 1978 to 1982 more than 2,500 firms were assisted, with estimated savings, resulting from improved efficiency, of £90 million. In view of this success the Government has extended the availability of the scheme from 1 April 1982 to firms in any sector of manufacturing, and is providing a further £3·7 million over a three-year period. It continues to be a condition of eligibility for the scheme that firms must have between 60 and 1,000 employees. The first 15 days of consultancy are free of charge and a further 15 days are available with firms paying half the costs. Details of the extension of the scheme were given in a parliamentary reply on 24 March by Mr John Wakeham, Parliamentary Under-Secretary of State for Industry (*Hansard*, Vol 20, No 84, written answers, col 195).

Extended Design Advisory Service

The Government is committing £3 million over the next three years in a scheme to promote the benefits of good design in manufacturing. The Design Council will operate the scheme, which will be an extended version of its design advisory service. Under the extended scheme manufacturers employing between 60 and 1,000 people will be able to receive free design consultancy for 15 days followed by a further 15 days for which the Government will pay half the cost.

Announcing the scheme in London on 7 June the Secretary of State for Industry, Mr Patrick Jenkin, said that it was one of a number of initiatives to promote design which had stemmed from a seminar organised by the Prime Minister, Mrs Margaret Thatcher, in January 1982. Other initiatives included the issue by the Department of Education and Science of a general guidance on the emphasis to be placed on design in schooling. The Department of Industry was helping the Design Council to launch a regular schools newspaper on design. The Council for National Academic Awards had set up a working party to assess the need for introducing design teaching into business management courses, and the London Business School had already set up a Design Management Unit at the school.

Emphasising the importance of design, Mr Jenkin said that a wider understanding of the meaning of design was needed. The entire manufacturing process should come within the designer's range of responsibility, including the materials, the method of production, and even the layout of machinery. The designer should be a key figure in the company boardroom in matters of investment in new products, product development and marketing strategy.

Concluding, he said that the Design Council had been a major influence on attitudes to design in Britain and abroad. Its international reputation was enormous and the national design bodies established in many foreign countries had modelled themselves on the Council.

Shorter Notes

SMALL FIRMS TECHNICAL ENQUIRY SERVICE

A Small Firms Technical Enquiry Service has been set up to give confidential help on technical problems to any small manufacturing business in England, Scotland or Wales. The service, for which the Government has made £2·2 million available over the next three years, is operated on behalf of the Department of Industry by the Production Engineering Research Association

(PERA). The new service will satisfy the demand of small firms for help with many types of problem: for example, finding the source of a particular component, improving the quality of a product or increasing the efficiency of a process. Besides its own staff, PERA will also be using the expertise of research associations, government research establishments, universities and private consultants.

Under the service, help is available to any small manufacturing business, provided that it employs no more than 200 people and has not received help under the Department of Industry's Manufacturing Advisory Service (see p 211). Larger small firms can obtain consulting help through the latter, as well as through the extended Design Advisory Service (see p 211). Each eligible small business can have help with up to four technical inquiries within a maximum of five man-days' work in total.

Source: Department of Industry press notice, 10.6.82.

OFFSHORE OIL AND GAS LICENSING

The Government intends to license about 85 blocks (a block, on average, covers some 250 sq km) in the eighth round of offshore oil and gas production licensing, to be launched later in 1982.

Announcing this in the House of Commons on 17 May, the Secretary of State for Energy, Mr Nigel Lawson, said that the main objectives of the new round would be to open up areas in which exploratory drilling had not yet taken place and to provide further opportunities to explore in the established gas province of the southern North Sea. Cash tender bids would also be invited for a small selection of blocks in the mature oil province of the central North Sea. The undrilled areas in which blocks would be offered for licensing were Unst, the Fair Isle and West Orkney Basins, the East Shetlands Platform, the Forth Approaches, the Southern Sub-Basin (the entrance to the Bristol Channel) and the Mid-North Sea High (an area between latitudes 55° and 56° North). The criteria for awarding licences, other than those for which cash tender bids would be invited, would be broadly similar to those for the seventh round – including the undertaking to allow the British National Oil Corporation an option to acquire up to 51 per cent of any petroleum produced. (Previous rounds took place in 1964, 1965, 1970, 1971-72, 1976-77, 1978-79 and 1980-81.)

Mr Lawson said he would welcome any views or comments on the detailed proposals from interested parties, particularly relating to the environment or fishing. He expected the closing date for applications to be towards the end of 1982.

Offshore production licences give the licensee the exclusive right to search for and extract oil and gas in a specified area. The areas of the United Kingdom Continental Shelf (UKCS) so far designated total some 642,806 sq km, of which about 84,373 sq km are covered by production licences. Present licensing interests equal to 37,298 sq km (44·2 per cent) are held by British companies, and interests equal to 47,074 sq km (55·8 per cent) by overseas-based companies. A total of 305 licensees, either singly or in consortia, hold production licences on the UKCS, on which 1,823 wells (842 production wells and 981 exploration or appraisal wells) had been or were being drilled at the end of 1981. To date 26 oil finds and seven gas finds have been declared commercial.

Source: *Hansard*, Vol 24, No 117, cols 14-15; and Department of Energy press notice, 17.5.82.

KIELDER WATER RESOURCE SCHEME

The Kielder water resource scheme in Northumbria, which includes the largest reservoir in Europe, was officially opened by the Queen on 26 May.

The scheme has been designed to regulate the rivers Tyne, Wear and Tees to allow for increased withdrawal of water to meet expected demands up to the end of the twentieth century. The reservoir, known as Kielder Water, will be developed for recreation and tourism. It holds some 4·1 million cubic metres of water and is 41·8 km in circumference.

The main contractor for the Kielder dam – 1·2 km long and standing 52 m above the river bed – and associated works was the Balfour Beatty-Fairclough Kielder joint partnership. The consulting engineers were Babtie Shaw and Morton, of Glasgow. The total cost of the project, construction of which began in 1974, was £167 million.

NEW 20 PENCE COIN

The new 20 pence coin entered general circulation on 9 June (see p 57, 1981). The seven-sided coin is in white metal (84 per cent copper and 16 per cent nickel) as are the current 5, 10 and 50 pence coins. Its diameter of approximately ⅞ inch (21 mm) is slightly less than that of the 5 pence. The new coin weighs 5 grammes compared with a combined weight of 22·6 grammes for two 10 pence coins.

Source: *British business*, 11.6.82.

SOCIAL AND CULTURAL AFFAIRS

Shorter Notes

VISIT BY THE POPE

His Holiness Pope John Paul II paid a pastoral visit to Britain from 28 May to 2 June at the invitation of the Roman Catholic community.

During the first visit to this country by a reigning Pontiff, the Pope attended religious ceremonies in London, Coventry, Liverpool, Manchester, York, Edinburgh, Glasgow and Cardiff. At each place he celebrated Mass assisted by the archbishops and bishops of the Roman Catholic hierarchies in England and Wales and in Scotland. There was an ecumenical meeting with the Archbishop of Canterbury, Dr Runcie, Primate of All England, at Canterbury Cathedral, where a joint service took place to bear witness to the common faith and baptism of the Catholic and Anglican Churches and where a joint declaration was signed by the Pope and the Archbishop of Canterbury in which it was stated that a new International Commission would be set up to continue the dialogue between the two Churches. There were meetings with many other religious leaders, including the Moderator of the General Assembly of the Church of Scotland, Professor John McIntyre, and the Chief Rabbi, Sir Immanuel Jakobovits. The Pope visited the Queen at Buckingham Palace.

CAPITAL PUNISHMENT

The House of Commons has again rejected the principle of re-introducing capital punishment for murder.

In the report stage of the Criminal Justice Bill on 11 May (see pp 39-41) an amendment was tabled by a Conservative back-bench MP on the restoration of the death penalty. In a free vote, votes were taken on re-introducing the death penalty for murder and on making it available for different categories of murder (*Hansard*, Vol 23, No 114, cols 692-701). Voting was as follows: the death penalty for murder was rejected by 357 votes to 195, a majority of 162; the death penalty for terrorism involving loss of life was rejected by 332 to 208, a majority of 124; the death penalty for murder by firearms or explosives was rejected by 343 votes to 176, a majority of 167; the death penalty for murder of police and prison officers was rejected by 332 votes to 208, a majority of 124; and the death penalty for murder in the course of robbery and burglary with offensive weapons was rejected by 331 votes to 151, a majority of 180.

Capital punishment for murder was abolished in England, Scotland and Wales in 1965 and in Northern Ireland in 1973. The question of its re-introduction was last debated in the House of Commons in 1979 when MPs voted against restoration by a majority of 119 (see p 251, 1979).

The death penalty has not been carried out in Britain since 1964.

NEW EDUCATIONAL QUALIFICATION

A new national qualification for 17-year-olds who stay on in full-time education was announced by the Government in a policy document published on 20 May.[1] The qualification is designed to meet the needs of young people of widely varying ability, but usually with modest examination achievements at the age of 16, who have set their sights on employment rather than higher education but have not yet formed a clear idea of the job they want to do, or who are not yet ready to follow a specific course of vocational education or training. The document says that the needs of this large group are not fully catered for by existing qualifications such as the General Certificate of Education (GCE) or the Certificate of Secondary Education (CSE).

The Government advises that the courses leading to the new Certificate, which will take one year of full-time study to complete, should give a vocational bias to a balanced programme of general education. Every candidate completing the course will receive a certificate recording his or her performance in all the subjects taught, and certain key subjects such as English, mathematics and science will be externally assessed. The

[1] *17 Plus: A New Qualification*. HMSO, £1·50. ISBN 0 11 270307 0.

Certificate is described as a 'key element' in the Government's policy of improving the vocational relevance of education and training for young people, and the courses leading to it will form the counterpart, in the field of full-time education, to the Youth Training Scheme for unemployed young people (see pp 21–24).

The Government's policy on the new qualification was decided in the light of comments received from many sources on the proposals announced in the consultative paper *Examinations 16–18* (see p 330, 1980). It is hoped that courses will begin in September 1984, with the first certificates being awarded in the summer of 1985.

DOCUMENTATION

Government and Administration

Statement on the Recommendations of the Security Commission (see p 178). Cmnd 8540. HMSO, £1·90. ISBN 0 10 185400 5.

Review Body on Top Salaries Report No 18. Fifth Report on Top Salaries (see p 175). Cmnd 8552. HMSO, £7·25. ISBN 0 10 185520 6.

Supplement to *Northern Ireland*. COI, No 127/81. (French, German, Italian and Spanish editions in preparation.)

The Channel Islands. COI, No 161/82.

The Isle of Man. COI, No 159/82.

The Falkland Islands: The Facts. Produced for the Foreign and Commonwealth Office by the Central Office of Information.

External Affairs and Defence

Strategic Nuclear Weapons Policy. First Special Report, together with minutes of evidence, from the House of Commons Defence Committee, Session 1981-82. HMSO, £4·25. ISBN 0 10 226682 4.

Britain and the UN Special Session on Disarmament. COI, No 162/82.

Commonwealth Development Corporation. Report and Accounts 1981 (see p 198). HMSO, £4. ISBN 0 903799 14 6.

Crown Agents for Oversea Governments and Administrations. Chairman's Review and Accounts 1981 (see p 199). Available free from the Crown Agents, 4 Millbank, London SW1P 3JD.

Report of the Tribunal appointed to inquire into certain issues arising out of the operations of the Crown Agents as financiers on own account in the years 1967-74 (see p 199). HMSO, £16·35. ISBN 0 10 414982 5*.

Economic and Scientific Affairs

Public Finance in Britain. COI, No 143/82. (French and Spanish editions in preparation.)

Britain's Tax Changes: 1982 Budget. COI, No 151/82.

Financial Statistics. Explanatory Handbook. 1982 Edition. HMSO, £6·95. ISBN 0 11 620028 6.

Employment in Britain. COI, No 131/82. (Spanish edition in preparation.)

Advisory, Conciliation and Arbitration Service. Annual Report 1981. Available free from ACAS, Cleland House, Page Street, London SW1P 4ND.

Certification Office for Trade Unions and Employers' Associations: Annual Report of the Certification Officer 1981. Available free from the Certification Office, Cleland House, Page Street, London SW1P 4ND.

Manpower Services Commission: Youth Task Group Report. Available free from the Manpower Services Commission, Selkirk House, 166 High Holborn, London WC1V 6PF.

The Royal International Agricultural Show. COI, No 51/82.

Main Line Railway Electrification. Second Report from the House of Commons Transport Committee, Session 1981-82.

Volume I. Report and Minutes of Proceedings. HMSO, £4·80. ISBN 0 10 296682 6.

Volume II. Minutes of Evidence and Appendices. HMSO, £8·50. ISBN 0 10 296782 2.

Information Technology in Britain. COI, No 133/82. (Spanish edition in preparation.)

The Post Office. Fifth Report from the House of Commons Industry and Trade Committee, Session 1981-82. HMSO, £8·50. ISBN 0 10 234382 9.

An Enquiry into the Social Science Research Council, by Lord Rothschild. The report reviews the functions, scope and organisation of the Council and concludes that it should be retained. The report recommends that the Council's budget should not be reduced in real terms for three years, but that its committees should be drastically reduced in number and that it should improve its links with industry. Cmnd 8554. HMSO, £6·50. ISBN 0 10 185540 0.

Patents, Designs and Trade Marks 1981. The 99th Report of the Comptroller-General of

Patents, Designs and Trade Marks. House of Commons Paper 351. The report draws attention to inventive trends in genetic manipulation, energy conservation, the control of oil pollution and automation. There was also increased interest in nuclear fall-out shelters and, following the success of the Rubik Cube, in manipulative toys or logic puzzles. HMSO, £4·75. ISBN 0 10 235182 1.

Social and Cultural Affairs

Supplement to *Residence in Britain.* COI, No 82/RP/81.

Public Disorder: a review of research and a study in one inner city area. Home Office Research Study No 72, by Simon Field and Peter Southgate. The findings of two projects initiated after the urban disorders of 1981. The first is a review of research on the subject, mainly based on the American disorders of the late 1960s, and describes the similarities and differences between the American and British experience. The second is a survey of attitudes among 500 young men in the Handsworth district of Birmingham conducted three months after an outbreak of disorder there in July 1981. HMSO, £4·75. ISBN 0 11 340767 X.

Door to Door. A national guide to transport for disabled people. Department of Transport. Available free from the Department of the Environment, Publicity Store, Building 3, Victoria Road, Ruislip, London HA4 0NZ.

The Secondary School Curriculum and Examinations: Initial Government Observations on the Second Report from the Education, Science and Arts Committee, Session 1981–82. In its reply to the recommendations of the House of Commons Select Committee the Government expresses its agreement that there should be a broad curriculum for all pupils up to the age of 16. It does not accept the suggestion that the Secretary of State for Education and Science should be given powers to intervene when local education authorities fail to make a nationally agreed provision. With regard to religious education, the Government is prepared to receive representations about the school act of worship, but does not believe that it would be helpful to standardise the present variety of practice, which reflects the complexity and diversity of society. It shares the Committee's belief in the value of records of achievement which, while not replacing examinations, should provide evidence of educational attainment and other achievements and could serve as an aid to selection for employment or further education. Cmnd 8551. HMSO, £2·10. ISBN 0 10 185510 9.

Mathematical Development, Primary Survey Report No 3. A study in the performance in mathematics of 11-year-olds in England, Wales and Northern Ireland. Assessment of Performance Unit, Department of Education and Science, Department of Education for Northern Ireland and Welsh Office. HMSO, £6·60. ISBN 0 11 270553 7.

A summary of the findings is given in the *APU Summary Report No 8*, available free from the Department of Education and Science, Room 2/11, Elizabeth House, York Road, London SE1 7PH.

Science Education in Schools. A Consultative Document. Studies the ways in which science is taught in secondary and primary schools and makes suggestions for changes in curricula and examinations. Available free from the Department of Education and Science, Room 4/88, Elizabeth House, York Road, London SE1 7PH.

Education 5 to 9: an Illustrative Survey of 80 First Schools in England. HMSO, £3·50. ISBN 0 11 270530 8.

17 Plus: A New Qualification (see p 213). HMSO, £1·50. ISBN 0 11 270307 0.

Priority Estates Project 1982. Improving Problem Council Estates: A Summary of Aims and Progress. Available free from the Department of the Environment, Room P2/050, 2 Marsham Street, London SW1P 3EB.

Historic Buildings Council for England. Report 1980–81. HMSO, £5·25. ISBN 0 10 234082 X.

The Tate Gallery. COI, No 166/82.

© *Crown Copyright 1982*

Printed in England by Brown Knight & Truscott Ltd
and Published by
HER MAJESTY'S STATIONERY OFFICE
£1.35 net

Annual subscription including indices and postage £20.42

Dd 8298582 K8 JUNE/82
ISBN 0 11 726752 X Vol. 12 No. 6
ISSN 0039—6214